

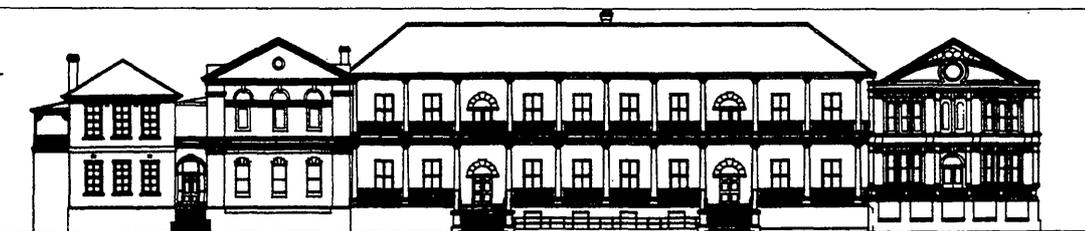


## PUBLIC ACCOUNTS COMMITTEE

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### **Proceedings of the Seminar on *Annual Reporting in the NSW Public Sector: the Best is Yet to Come***

9 August 1995



Report No. 2/51  
[No. 92]

September 1995

This report was compiled using *WordPerfect for Windows 6.1*,  
and printed by the Parliamentary Printing Services.  
Covers printed by Clarendon Printing Pty Ltd.

Copies of this report have been distributed to  
all legal deposit libraries in Australia.

Copies of this report may be obtained from:

Government Information Service  
Goodsell Building  
8-12 Chifley Square  
Sydney 2000  
Telephone (02) 752 1111

New South Wales Parliamentary Library cataloguing-in-publication data:

**Best is yet to come : Seminar on Annual Reporting in the NSW Public Sector (1995 : Sydney, N.S.W.)**

Proceedings of the Seminar on Annual Reporting in the NSW Public Sector : the Best is Yet to Come. -- Sydney, N.S.W. : Public Accounts Committee, 1995. -- 130 p. ; 30 cm. (Report / Parliament NSW, Public Accounts Committee ; no.92)

At head of title: Parliament NSW, Public Accounts Committee.  
ISBN 0731021738

1. Civil service--New South Wales (LCSH)
  2. Public administration--New South Wales (LCSH)
  3. Expenditures, Public--New South Wales (LCSH)
  4. Administrative responsibility--New South Wales (LCSH)
- [1. PUBLIC-SERVICE-NEW-SOUTH-WALES (Parliamentary Thesaurus)]  
[2. PUBLIC-ADMINISTRATION-NEW-SOUTH-WALES (Parliamentary Thesaurus)]  
[3. PUBLIC-EXPENDITURE-CONTROLS-NEW-SOUTH-WALES (Parliamentary Thesaurus)]  
[4. ACCOUNTABILITY-NEW-SOUTH-WALES (Parliamentary Thesaurus)]
- I. New South Wales. Parliament. Public Accounts Committee
  - II. Title
  - III. Series: New South Wales. Parliament. Public Accounts Committee. Report ; no.92

351.72309944 (DDC20)

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## **MEMBERS OF THE PUBLIC ACCOUNTS COMMITTEE**

### **Mr Terry Rumble, FCPA, MP, Chairman**

Terry Rumble was elected Labor Member for Illawarra in March 1988. Before entering Parliament he qualified as an accountant and was employed in public practice and in the coal mining industry. He has served as a member of the Regulation Review Committee and is the Chairman of the Premier's Backbench Committee which involves Treasury, arts and ethnic affairs. Mr Rumble was elected Chairman of the Committee on 24 May 1995.

### **Mr Pat Rogan, MP, Vice- Chairman**

Pat Rogan has been member for East Hills since 1973. He has been active on numerous parliamentary committees in that time including the Joint Committee upon Public Accounts and Financial Accounts of Statutory Authorities. This was the Committee that reactivated a dormant Public Accounts Committee in 1983. Pat Rogan has also served as Shadow Minister for Minerals and Energy with a background as a senior sales engineer in automation.

### **Mr Joe Tripodi B.Ec (Hons), MP**

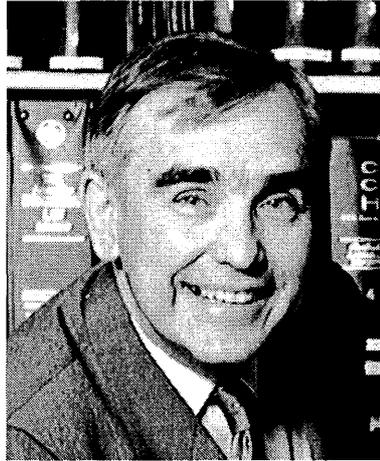
Joe Tripodi was elected to Parliament in May, 1995 as the Labor Member for Fairfield. Before entering Parliament he worked as an economist with the Reserve Bank of Australia and as a union official with the Labor Council of NSW.

### **Mr Ian Glachan, MP**

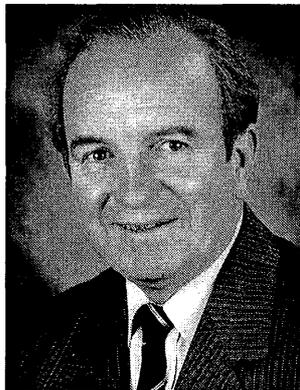
The Liberal Member for Albury since 1988, Ian Glachan has had a varied background. He served five years at sea as a marine engineer, was a farmer for ten years, and operated a newsagency in Albury for 18 years. Mr Glachan is also a past president of the Albury-Hume Rotary Club and a Paul Harris Fellow, an active member of the Anglican Church, and was the Legislative Assembly member on the Board of Governors of Charles Sturt University. He was Chairman of the Public Accounts Committee in late 1994 and early 1995.

### **Mr Peter Cochran, MP**

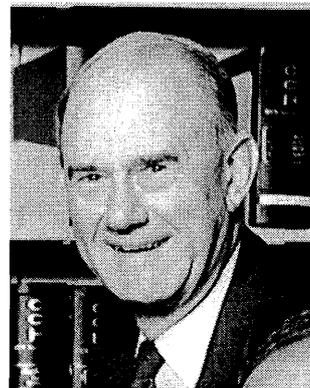
Following a background in farming, the Army, the Commonwealth Police, ASIO, and the Cooma-Monaro Shire Council, Peter Cochran won the seat of Monaro for the National Party in 1988. His previous parliamentary responsibilities have included the chairmanship of the Minister's Advisory Committee on Land and Water Conservation, deputy chairmanship of the Committee for Police and Emergency Services, and membership of the committee for the Environment and the Select Committee on Public Sector Superannuation. He was also the Premier's representative on the Anzac House Trust and the Anzac Memorial Trust. He is currently Secretary to Shadow Cabinet.



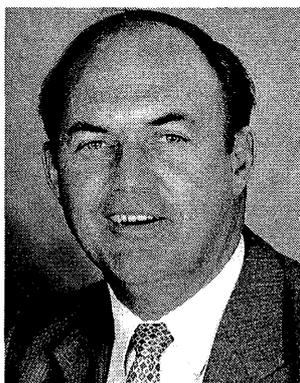
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**Chairman**



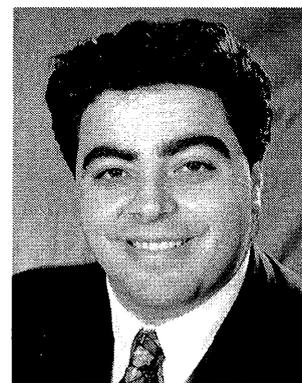
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**Vice-Chairman**



Mr Ian Glachan, MP



Mr Peter Cochran, MP



Mr Joe Tripodi, MP

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## APPENDIX ONE

Written Seminar Papers provided by the following speakers:

- ▶ Mr Michael Lambert
- ▶ Mr Chris Warrell
- ▶ Associate Professor James Guthrie
- ▶ Mr Tony Harris
- ▶ Dr Russell Cope

## APPENDIX TWO

Seminar Participants

## CHAIRMAN'S FOREWORD

Public seminars have become an integral Part of the Public Accounts Committee's work. They are an important means by which the Committee can fulfil its objective of informing Members of Parliament and public servants of financial management and accountability issues. They also represent an extremely effective part of the public inquiry process.

The seminar on *Annual Reporting in the NSW Public Sector - The Best is Yet to Come*, held at Parliament House on 9 August 1995, was one the Committee's most successful seminars to date. Over 150 senior public servants participated in the seminar along with a number of annual reporting experts from academia and the private sector.

The seminar enabled many significant issues concerning annual reporting by public sector agencies to be raised and discussed. Some of the key issues to emerge from the seminar include:

- the need for annual reports to focus on performance, particularly non-financial performance;
- the need for increased parliamentary scrutiny of annual reports;
- the opportunities for using modern technology, such as the Internet, in annual reporting; and
- the need to ensure annual reports are accessible to users.

Since the seminar the Committee has conducted a number of public hearings at which these and other issues have been examined. The transcripts of these hearings and the submissions received by the Committee form separate volumes and are available to interested parties. The Committee will continue to deliberate on the issues raised at the seminar and hearings over the coming weeks. I anticipate that the Committee will report on its inquiry into annual reporting in the NSW public sector during the 1995 budget session of Parliament.

Finally, on behalf of the Committee, I would to thank all those who donated their time to speak at the seminar and who contributed towards its success.



Terry Rumble MP  
Chairman



**Mr Terry Rumble, MP  
Chairman of the Public Accounts Committee**

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## **Welcome & Opening remarks from the Chairman**

MR TERRY RUMBLE MP (Chairman, Public Accounts Committee): Good morning. My name is Terry Rumble and I am the Chairman of the Public Accounts Committee. Welcome here today. It is my pleasure to welcome you to this Seminar on Annual Reporting in the new South Wales public sector. It is encouraging to see such a high degree of interest in annual reporting and to have such a high calibre group of practitioners here today. I would also like to thank all the speakers who will be speaking throughout the day.

I would just like to give you a brief outline of the Public Accounts Committee before I invite the treasurer to open today's seminar. All of you would have received a brochure on the PAC when you registered this morning. I commend it to you. The Public Accounts Committee was established by The public Finance and Audit Act 1993 and its functions are set out in section 57 of the Act. The Committee is the Parliament's watchdog over the Executive.

The PAC is concerned with the efficiency and effectiveness of the implementation of government policy, the accountability of the public sector and the politicians and The public's understanding of the financial operations of government. The Committee consists of five members of the Legislative Assembly. Four of my predecessors in this role are now the Premier, the Treasurer, the minister for Education and the Speaker of the legislative Assembly respectively. Three other committee members are here today - Mr Joe Tripodi, Mr Ian Glachan and Mr Peter Cochran - and each of them will be chairing sessions of the seminar so you will get to see them during the day. The other member who could not be with us today is Mr Pat Rogan. The Committee is assisted by a small but busy Secretariat.

The Committee's main activity is the conduct of public inquiries. Matters may be referred to The committee for inquiry by a Minister, the Legislative Assembly or the Auditor-General, and the Committee can also self-reference. Public inquiries include an opportunity for members of the public, agencies and interest groups to make submissions, public hearings, field visits, Committee meetings and a report to Parliament.

Recent PAC inquiries have examined infrastructure projects, the Rural Assistance Authority, the School Students Transport Scheme, internal audit and the Forestry Commission. The Committee is presently conducting a number of concurrent inquiries. We are examining the export opportunities for NSW Government agencies, we are supervising a peer review of the New South Wales Audit Office, we are reviewing the implementation of accrual accounting in the New South Wales public sector and we have just completed a review of a particular business decision of the Darling Harbour Authority.

The Public Accounts inquiry into Annual Reporting builds upon the work of the previous Public Accounts Committees on this important subject. This inquiry seeks to be a comprehensive review of the effectiveness of annual reporting by public sector bodies and will produce recommendations about the specific requirements to be included in a new

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comprehensive review of the effectiveness of annual reporting by public sector bodies and will produce recommendations about the specific requirements to be included in a new financial and annual reporting legislation.

Each of you would have received a copy of the Committee Issues Paper on annual reports when you registered. Any of you whose organisations have not made a submission on the issues raised in that paper are encouraged to do so over the next few weeks. The committee will continue to receive submissions until 22 August. It is hoped that this seminar will provide the opportunity for a range of views to be expressed by our speakers and for public discussion about the issues under review.

The program allows time for questions directly after each speaker, with the exception of the treasurer, who can only spend a short period of time here today with us because he has a State funeral to attend. If you wish to ask a question I would ask you to speak loudly and clearly and that you identify yourself and the organisation which you represent.

We will be producing a transcript of the seminar proceedings which will be tabled in the Parliament and we would like to include all questions and answers as well as the papers delivered by the speakers. However, with an audience of this size it is unlikely that everyone will be able to ask a question or make the comments that you may wish to. Therefore, you would have all received a survey when you registered. The survey is designed to ensure that all seminar participants have an opportunity to comment on the points made by each speaker and on the substantive issues discussed today. I would like you to take ten minutes to complete this survey at the end of the day and leave it with the Committee staff on your way out.

Finally, it is my pleasure to introduce to you today the Treasurer. The Honourable Michael Egan MLC is a former Chairman of the Public Accounts Committee. Between 1981 and 1984 Michael Egan was a member of the New South Wales Legislative Assembly and was the Public Accounts chairman for two years between 1983 and 1984.

Prior to entering the Legislative Assembly he was a research officer for the AMIEU and adviser to the Federal Minister for Housing and Construction from 1973 to 1975 and an officer of the State Pollution Control Commission. Between 1984 and 1986 Michael Egan was an adviser to the Honourable Barry Unsworth. He was elected to fill a casual vacancy in the legislative Council in 1986. From 1991 to 1995 he was Leader of the Opposition in the Legislative Council. Since April 1995 he has been Treasurer, Minister for State Development, Minister for Energy and Leader of the Government in the Legislative Council.

Michael Egan and I go back a long way. Over 25 years ago we were both involved in youth politics, and I would like to thank him for coming along here today considering that he has only a short time frame because he is attending the State funeral of the late Fred Daley.

It is my pleasure to invite the Treasurer to open today's seminar. Thank you.



**The Hon. Michael Egan MLC**

## **Official Opening**

THE HON MICHAEL EGAN, MLC (Treasurer, Minister for State Development and Minister for Energy): Thanks Terry, and thanks ladies and gentlemen. As Terry pointed out, I have only a short time. In fact, I have about two or three minutes before I have to leave. I think Fred Daley would be getting some pleasure out of the fact that he has probably mucked up a number of people's itineraries today. He would find some enjoyment out of that.

I was somewhat surprised when I walked in here this morning to see the number of people who were here because ten or so years ago when I was Chairman of the Public Accounts Committee if we were in those days to hold a seminar such as this on annual reports, I very much doubt there would be too much interest amongst the public sector in that topic.

Annual reports were by and large a joke. They were a pain in the neck. They were the sort of thing that an agency or department had to throw together quickly at the end of the year simply to satisfy the requirements of their particular legislation. They were certainly not expected to be documents that anyone would read closely or that anyone would take too much notice of. They were very, very poor quality documents, no-one really knew what their purpose was, what they were about, and essentially they were public relations exercises.

Now, of course that had to change, and it did when Ken Booth decided to make a reference to the then Public Accounts Committee, which only recently had been formed, and it was one of our first major inquiries. As a result of that inquiry we produced our report, with a very exciting name of Accounting and Reporting Requirements of Statutory Authorities, and from there the Annual Reports Act in relation to statutory authorities came into being and then the Annual Reports Act concerning departments came into being.

By and large I think that legislation has worked very, very well. There has been over that time a very, very significant improvement in the performance, particularly of statutory authorities, and I think I put that down to two things: Firstly, the internal want of funds, which has driven governments in all States and no doubt in all countries to get better performance out of public instrumentalities. But also I think a major influence on the improvements has been the existence of annual reporting legislation which has meant that for the last decade, for the first time, authorities really have had to concentrate on providing information to Parliament that is not only a valid indicator of their performance but as well is an accurate and adequate measure of their performance.

So I think the emphasis which the annual reports legislation has put particularly on operational performance has been very, very valuable and has had some very significant impacts on the performance of authorities, not only on their financial performance but also their operational performance.

Now, having said that I think the legislation has worked well, I suppose you would say, "Why are we here today?". It is ten years since the legislation was first introduced and I think

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ten years is long enough to revisit any legislation. But certainly ten years is ample time for the legislation to be able to be judged by how it has operated and what effect it has had. So I think this is an ideal opportunity for the parliament to look again at that legislation, to finetune it where necessary and to ensure that it works first and foremost as an accountability instrument.

I think the great deficiency that has become evident over the last decade or so is that there still isn't any suitable mechanism for focussing on annual reports. No doubt those who have a particular interest in a particular agency will find an annual report valuable. Certainly from my own point of view as Treasurer, annual reports are a very valuable accountability instrument. But by and large I don't think anyone should delude themselves that Members of Parliament are going to for example read every annual report. In fact, they become part of the vast pile of correspondence that ends up on your desk. Sometimes you put it aside saying that you will read that when you get a chance, but the likelihood is that you will never get round to reading it.

So it seems to me that is a problem and, with that in mind, the Government decided, in fact before the election but put into practice soon after the election, the establishment in the Lower House of a Public Bodies Review Committee. It has the same name as the committee in the Victorian Parliament but will have a much different purpose. I thought it was important that the Committee has one task, and one task alone, and that was to review each and every annual report produced by every department or statutory authority.

Given the vast number of agencies, clearly no single parliamentary committee would be able to review to any degree of satisfaction every annual report. But what will happen is that every department, every statutory authority, will know each year that its report will be going off to a parliamentary committee which will be charged with the job of determining whether the financial and operational information in that report is valid for purposes of performance evaluation, whether it is accurate and whether it is adequate. But no agency, no department or authority, will know until it gets before the Committee whether it is going to be a half hour review or a two month review so each agency will know that at some time in the next five or six years it will get the real treatment, but it will never know whether it is going to be this year, next year or whenever.

So even though it will be impossible for a detailed review of each annual report, at least every authority, every agency, will know that at some stage in the next four or five years it will be subject to that detailed review and will therefore always have to be on guard.

Now, of course ten or 12 years ago when we were doing our first report on annual reporting and when that legislation was finally introduced into the parliament the public sector seemed somewhat different. We didn't in those days envisage that a number of our agencies would in fact become competitors in a competitive market as we have now, particularly with power and no doubt in a lot of other areas in the near future, so to some extent there is the discipline of competition which adds another dimension to the

accountability requirements which are now being imposed particularly on statutory authorities.

I have spoken much longer than I really had time to speak. I might say that I actually had some intelligent and serious comments drafted to deliver to you today but time precludes me from doing so, but that is probably sensible in a way because in the end I will be the Minister determining what the final recommendation to Cabinet about annual reports legislation will be so it is probably good rather than me trying to influence a seminar like this, or The public Accounts Committee, that I keep my counsel to myself for a while until I have had the opportunity to see what people such as yourselves are saying and what the Public Accounts Committee is saying. But certainly we have come a long way in the last ten years as far as annual reports are concerned.

As I said at the outset, ten years ago we wouldn't have got an audience of this size to a seminar on public accounts and on annual reports. They were regarded as a joke. Now they are taken seriously and I think one of the things that illustrates that is that the Office of State Revenue, which is within my portfolio, this year won the award for the best annual report, not just in the public sector but from public and private sectors in Australia. I think that is a tremendous achievement, and what that indicates really is that organisation is looking carefully at how it does its job. It is evaluating its own performance in an intelligent way, because if it is to produce an annual report that is of any quality and of any value, if it is to produce an annual report which can win an award as the best annual report in private and public sectors in Australia, it really is an indication that it is focussing on doing its job well.

Ladies and gentlemen, I welcome you to this seminar. I congratulate the Public Accounts Committee on its initiative in holding it, and I hope that you have a fruitful day and that the outcome of the seminar will provide myself and the Government with some good suggestions as to what we should do when the legislation is reviewed. Thank you very much.

MR RUMBLE: Thanks very much, Treasurer, for being here today to officially open our conference and also for your remarks.



**Mr Michael Lambert**  
**Secretary, NSW Treasury**

## **The new financial and annual reporting legislation**

MR RUMBLE: It is my pleasure now to introduce to you Mr Michael Lambert. He holds a Master of Economics degree from the University of the Sydney. He is the Secretary of the New South Wales Treasury, and Chairman of the New South Wales Treasury Corporation and the State's central borrowing authority. His key responsibilities include being the Government's economic and financial adviser; oversight of budget position and strategy; shareholder oversight of the performance of government trading enterprises and State-owned corporations; accounting and reporting standards for the public sector; and revenue and intergovernment financial policy.

Michael has been in the New South Wales Treasury since 1979, holding a range of senior positions including Chief Economist and Deputy Secretary, prior to his appointment in August 1994 as Secretary.

On a personal note, Michael's interests include public policy, history, economics, literature, drama and art. Would you all please welcome Michael Lambert.

MR LAMBERT (Secretary, New South Wales Treasury): Thank you, Terry, for the introduction. At the outset, I would like to congratulate the PAC for holding this conference today. I think it is a very well structured event. Obviously this view is reflected in the market place because we have almost a full house.

I am going to talk about the new financial and annual reporting legislation as a broader concept rather than just relating it to the Annual Reports Acts, but I will incorporate as an important point the annual reporting requirements.

We are presently reviewing the financial legislation as a group, and that includes the annual reporting legislation and we have a number of objectives in mind for this review. Firstly, since the legislation was drafted, major developments have occurred with a shift in philosophy and practice. What we want to do is realign the legislation with modern practice across the board. We also want, as part of that exercise, to make the legislation more flexible, more principles-based and able to accommodate developments into the future.

Secondly, we want to look at the legislation in terms of style. The style of the present legislation tends to be prescriptive and detailed. That may have been appropriate in the past, but going forward, we want to have a broad framework that enables evolution to occur within its structure.

Thirdly, we want to consolidate all financial legislation into one set of omnibus legislation and not have it fragmented and divided up, as it is now, between four or five Acts and quite a few regulations, which are difficult to encapsulate.

We have three broad objectives in developing the legislative proposal. The first of these is

resource allocation, the concept of achieving an optimal allocation of resources between competing ends which requires identifying the level of resources available, a process of allocation of those resources to competing ends and linking of the resource allocation to performance.

The second objective is resource management. Once the question of allocating the resources to competing ends has been answered, the question is then one of efficient and effective use of resources and of ensuring that they are best used for their designated purposes.

The third objective is accountability both for compliance, which is the traditional concept, and for performance.

Underlying the proposed financial management reform program are four principles. The first principle is financial accountability and transparency. This means ensuring that there is appropriate responsibility for an organisation's financial performance and that its actual performance is very transparent, with clear information available to enable assessment of performance and position.

Secondly, and related to that first principle, is devolution - seeking to assign responsibility for decision-making to the most appropriate level in the organisation which can best control the outcomes.

The third principle is one of financial integrity, which involves creating independent standards of reporting and of information that ensure a consistent and appropriate approach towards how an organisation reports its financial performance.

There is a fourth principle too, but it has been addressed by separate legislation. The fourth principle is financial responsibility. The general Government Debt Elimination Bill, which the Treasurer will be introducing in the Budget session, has effectively targeted that particular principle. That principle is really about trying to achieve the appropriate level of debt over time and the appropriate financial structure for an organisation and for the government in toto. The Bill sets out a target of elimination of general government net debt over a defined period of time.

In terms of the scope of the legislation, the new Act is trying to pull together a whole series of current items of legislation. There is the Public Finance and Audit Act and the Public Authorities (Financial Arrangements) Act, the latter covering investments and borrowing powers. Then there are the two Annual reports Acts, one relating to statutory bodies and the other relating to departments, and a whole series of regulations are attached to all those items of legislation.

We also have the Treasurer's directions, the edicts from the mount that define, usually in copious detail, what one should and should not do. We are looking at all these directions.

Our general view is that they should not exist unless these are very good reasons to the contrary. We are trying to include them only where there is a strong case.

The other dimension of scope is the range of agencies included. Our intention is that the scope of the proposed legislation will extend to all agencies. There is an issue there because when we talk about budget or general government sector and the public trading enterprises sector, we think of them in different terms as commercial and as budget-funded. Some of them operate in markets; some of them do not operate in markets. Some of them are self-funding; some are not self funding, so there is a whole host of different considerations. We want the legislation to encompass the whole range of agencies, so it has to be fairly broad and general to do that.

At the same time, strategically, our view is that, over time, the actual incentives and structures for those agencies should be consistent.

The legislation will have three levels. The first level is the Act itself and, as I said before, we see this as providing the broad framework, dealing with broad concepts and principles; and providing the framework of financial reporting and financial management in New South Wales.

Taking it a level down, we then have the regulations. These will set out the particular details, where we believe details are appropriate, and they, by definition, can vary over time, unlike the contents of the new Act, which we hope will survive for the next decade. The regulations will cover specific requirements such as the format of reports and accounts, the level of disclosure in reports, the sort of detail which would need to be refreshed and reviewed over time and which one would not want embodied in detailed legislation.

The third area is what we call the statements of best practice. We are doing a fair bit of work in this area. We have identified four elements to financial management. There is decision support, which covers budgeting, capital planning and costings; control which includes internal control and audit; reporting and monitoring; and transaction processing which includes accounts payable, accounts receivable and cash management.

Our general feeling is that, at the moment, if we were to put those four elements on a white board and list the agencies and start to look at where resources are allocated, probably 60 per cent or 70 per cent of the effort and focus would be seen to be on transaction processing. What we want to do strategically is shift focus on resources from that area to the other three areas, of decision support, reporting and control. We believe those three areas should have the greater bulk of the focus.

We are devolving a framework in best practice and a series of best practice statements which set out what we believe characterise universally best practice in a number of areas. We have released the Internal Control and Audit Best Practice statement, which has been well received. We are working on budgeting, capital management reporting, costing and capital

management. We are also working to develop a series of case studies that support these best practices. The third layer of our work is a dynamic process, which we believe will provide much benefit to agencies and to financial management in New South Wales.

I will now turn to the contents of the legislation. I will give you a broad outline of some of our thoughts on the matter. We are still gathering thoughts and will soon be moving to issue a discussion paper. Firstly, the legislation will cover the classification of agencies. We have a comprehensive classification schema of agencies. The broad schema proposed was that of the Australian Bureau of Statistics which divides agencies between the general government sector, the public trading enterprise sector and the public financial institution sector. Within that, the general government agencies will be subdivided into budget and non-budget sector agencies.

Secondly, we will cover the issue of corporate governance in the legislation. We wish to try to define broadly the roles and responsibilities in financial management of parliament, the executive government, ministers, the Treasurer, boards, CEOs and the external accountability mechanisms, the Public Accounts Committee and the Auditor-General. We need to identify the principles that should apply, in terms of corporate governance generally, to financial management.

The third area is parliamentary appropriation and control, which is an important section of this legislation, certainly in terms of control. The focus will be on the net cost of services, together with the Consolidated Fund cash support for recurrent allocation, capital allocation and financing transactions. We are also looking, in this legislation, at establishing the general principle of linking appropriation to broad programs and performance in terms of outputs and outcomes. A fair degree of discussion in the legislation centres around outputs and outcomes, and a recurring theme in the legislation is the seeking to define performance in terms of outputs and outcomes, seeking to have financial resources identified against outputs and outcomes and seeking to have performance measures identified against outputs and outcomes.

Another issue within this area of appropriation control is the question of authorisation for variance in appropriation. The PAC has been looking at this issue for a number of years. We have been persuaded by the PAC's arguments and we are looking to have additional Appropriation bills during the year to authorise any additional expenditure that is incurred before and after the budget.

The legislation will cover the issue of transfer of funding between years, which is an existing practice, but one that is not recognised in legislation. We will also cover the issue of the format of budget estimates in broad terms.

The fourth area that the legislation will cover will be financial planning, which is a very important aspect of the financial management structure. The legislation will recognise the need for and will require that strategic and business planning systems be developed.

There will also be a broad outline in the legislation on statements of financial performance for all agencies, identifying the broad financial parameters within which agencies operate, their financial performance targets and the process of negotiation on those financial performance targets between the ministers and the Treasurer on an annual basis. This is in place already for the government trading enterprises and we will be phasing it in for budget sector agencies. I refer you to the Treasurer's recent financial statement for a broad statement of approach in this respect.

This section will also cover the issue of financial performance indicators and internal control and audit. It will also take up the general principles in the best practice documents.

The fifth area will be financial and annual planning and will cover the issue of standards, for example. The legislation will require that, generally speaking, budget information on a cash basis will conform to government financial statistics standards and, secondly, that accounting reporting will conform to general accepted principles of accounting standards where they are in existence.

There will be a need for some recognition of departures from standards. Where there are departures, they are to be dealt with in a transparent manner requiring a report to be tabled in Parliament outlining the reasons for such departures. It will examine how departures can be, over time, addressed.

This section also will cover the issue of management reporting systems. It will impose a requirement that adequate management reporting systems be in place and will cover the issue of annual reporting. In that regard we will be particularly interested in the results of this seminar today and the findings of the PAC.

We also will cover the issue of whole-of-government reporting as distinct from annual reporting of agencies. Moving to whole-of-government reporting has been a significant development in the last few years. The legislation will provide for half yearly and annual statements on the general government sector as well as half yearly and annual consolidated financial statements for the whole of the public sector. It will also cover the question of monthly reporting on the budget and half yearly statements by the Treasurer on the budget. In addition to that, it will require a clear reconciliation between the budget cash-based approach and the accrual commercial-based approach.

The sixth area of the legislation will be financial arrangements and investments. This covers questions of borrowing or financing powers and investment powers and will seek to create a structure that provides the powers appropriate to organisations and commensurate with their expertise and role. Obviously, financial institutions will have much broader investment powers than organisations that do not have financial management as their core function. This legislation will subsume into one Act what is currently in a different Act.

The seventh area is the review function and the legislation will cover the question of

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internal audit and audit committees and their role in an organisation. It will also cover the issue of external auditing. There are still some very important issues which we are grappling with on which we do not at this stage have a definitive answer.

One issue is the question of the nature and scope of financial audits, relative to performance audits. This is a controversial area and has been the subject of some debate in the past. It is an area where we would like to try and create some clear structures in the legislation.

The issue of accountability also needs to be addressed in terms of the audit function. We have looked at the private sector model, where there is accountability to the shareholder exercised through the board and we are looking at the analogous situation for the public sector. I suppose an analogous situation is Parliament, in a sense, but we also are looking at the role of the Auditor-General and at the role of the Public Accounts Committee with regard to the question of accountability in terms of external auditing functions. In that regard, we are particularly interested in the current PAC peer review of the external audit function of the Auditor-General's office as a significant input to our deliberations in this area.

The legislation will need to address the role of the Public Accounts Committee and the question of incorporating some broad objectives for the committee. The question of the powers of the PAC also needs to be addressed, as does the issue of the initiation of reviews - how are reviews initiated by the Public Accounts Committee? These are all important issues on which we will need to confer with government and The public Accounts Committee and the results will find their way into this legislation.

An interdepartmental committee, is acting as a reference panel and includes all key players. We are aiming to release a consultation document probably by next month, September. This will be a broad statement of issues and it will give a general idea of the direction in which we are going, but it will not be definitive in those areas where there are still outstanding reports to be considered. I have already mentioned a few of those areas today. They will be given a wide exposure and substantial time for discussion and input. We will be holding a number of conferences, seminars and workshops to discuss the issues. The plan is to have legislation in place by mid-1996.

After the legislation is developed and enacted, we will be developing a series of awareness and training programs to improve understanding of the principles and application of the legislation. The best practice guidelines will become a very important tool for assisting in the development of excellent financial management in New South Wales.

That broadly covers the present state of play. We look to gatherings of this nature and to the work of the Public Accounts Committee to provide particularly important inputs into the work we are proceeding with now. We look forward to the results of today's hearings which, as I said, before will be a particularly important input in the framing of the annual reporting sections of the legislation, which is a very important component of the legislation.

MR RUMBLE: Thanks very much, Michael, for sharing the Treasury perspective with us.



**Professor Bob Walker**  
**School of Accounting, UNSW**  
**Chairman, Council on the cost of Government**

## **Who reads annual reports?**

MR RUMBLE: It is now my pleasure to introduce Professor Bob Walker from the School of Accounting at the New South Wales University. Professor Walker is Chairman Designate of the Council on the Cost of government and he will speak to us today on perspectives of both the public sector and the private sector.

In relation to the public sector, he has been an adviser to the New South Wales Public Accounts committee, to the Northern Territory Treasury, to the Northern Territory Public Accounts Committee and to the New South Wales and Commonwealth Auditors-General on disclosure and accountability issues.

In relation to the private sector, he has acted as a consultant to the former National Companies and Securities Commission, was the principal author of proposals which led to the current reporting requirements contained in the Corporations Law, was a member of the Australian Accounting Review Board, has been Deputy Chairman of the Australian Shareholders Association for the past six years and has maintained a keen interest in the way in which company boards report on their performances. It is my pleasure to introduce to you Bob Walker. Thank you.

PROF WALKER (School of Accounting UNSW): I am asked to talk about who reads annual reports. A decade or more ago, there was a fair bit of interest amongst academic researchers about who reads annual reports produced by firms in the private sector. To summarise the findings of those survey-based studies: Readers of annual accounts and annual reports were hard to find. Most decisions about investment insecurities were based on other sources of information - mainly rumours, advice from brokers, or tips from friends or acquaintances. Possibly the friends gave the good tips and the acquaintances gave the other ones.

The majority of individual shareholders did not spend much time reading those reports. Most based decisions on investing or disinvesting on the advice of intermediaries, such as brokers or media commentators. Other research concerning the scale of market reactions to announcements of differing kinds found minimal market reaction to the publication of the detailed annual reports. The greatest proportion of movements in share prices was explainable by the release of simple statements about preliminary final or interim profit results. That kind of report often occupied less than half a page.

I would like to be able to say that those findings left regulators, accountants who prepare annual reports and auditors absolutely devastated; they had built their careers around annual reporting; they were part of an industry of annual reporting, but that would be quite an overstatement. It would also be an overstatement to suggest that those findings left those parties shaken. At best, the modest few who read this literature were a little puzzled.

Probably the situation was not as bad as first thought. The picture which has subsequently

emerged from a succession of different types of research studies is that annual reports or their equivalent in the form of annual returns which are filed with regulatory agencies may, in fact, be a source of significant information to private sector analysts, who play a major role in guiding investment policies of institutional investors.

It has also been accepted that the publication of audited annual reports serves an important role in confirming the signals previously disseminated to market participants through those interim and preliminary final reports, and many argue that they play a very significant role simply as a discipline and as part of the accountability relationship between boards and stakeholders.

However, to my mind, there are disturbing anomalies in the picture painted by much of that academic research. The picture is that of an efficient market, which responds quickly to complex reports; the market is led by shrewd analysts, who, even though they may not be able to see through detailed accounting changes, are at least able to interpret and disseminate the information that is published in annual reports.

If that story were true in the private sector, intermediaries such as analysts and journalists, let alone our regulators, would have picked some of Australia's corporate disasters of the 1980s a lot sooner. Moreover, they would not have recommended investment in companies such as Quintex and Bond Corporation very shortly before they collapsed. A careful reading of the annual reports of those companies would have shown that Quintex, for example, openly acknowledged that it was capitalising - that is, adding to the value of assets in the balance sheet - its trading losses on resort developments and television businesses without disclosing how much was being capitalised and treated this way rather than being booked as a loss.

Bond Corporation was creating profits from property sales, which were only contingent sales and subject to put options. It was also cooking its balance sheet by prematurely recording the proceeds of note issues as current assets weeks before the securities were actually issued and the cash was received. Moreover, those signals were not recognised by thousands of self-interested investors, or even by the auditors, for those companies had some of the best auditing money could buy.

There is a problem here, I suppose, in the framework of annual reporting that we have in the private sector. In particular, there is minimal disclosure of revenues and expenses in the financial statements of corporations. It is interesting to note that the first requirement for detailed profit and loss statements to be presented, even to shareholders, did not appear until the 1930s - in 1936 in New South Wales - and even then that started with a figure for operating profit; there was no requirement to disclose details of revenues and expenses, and there still is not, in the private sector.

The picture that emerges is that many shareholders do not read in detail the annual reports that are disseminated by private sector corporations, nor are they in a position to understand

them. If there are any doubts about the situation in the private sector, those doubts are magnified in The public sector. Indeed, the search for users of public sector annual reports may be even more elusive. A British academic, Professor Richard Jones, has put it this way: "Publication of annual reports is not in The public interest because the public has no interest."

Statements such as that make me feel a bit like an outsider. I like nothing more than to curl up by a warm fire with a good annual report, or even a bad annual report. However, there are probably good reasons for scepticism about the existence of a large body of users of public sector annual reports. For a start, few professional analysts are interested in assessing the performance of public sector agencies, particularly as many public sector agencies do not borrow directly from the public or issue tradeable securities. The main exceptions in Australia are representatives of rating agencies, who, being paid to produce credit ratings, are in an unusual symbiotic relationship with participating Governments.

The journalists who report on the performance of private sector firms generally have some expertise in financial matters or they have reason to acquire it on the job. Moreover, they report to a national audience. The journalists who report on public sector finances spend most of their time covering other local political events, and at a State level they generally write for a local audience. Journalists and other media commentators are often too busy to undertake basic research by reading financial reports, and most times they rely on press releases. Even those who want to examine public sector annual reports find them difficult to access.

In the private sector, the annual reports of listed companies are usually freely available from the companies themselves. Sets of past reports are readily accessed at the Australian Stock Exchange, albeit at a sharply escalating fee, and as a last resort, annual returns can be accessed through the Australian Securities Commission's DOCIMAGE system at \$23 a throw.

Public sector annual reports are not as freely available. Again, I am frequently asked to pay for public sector annual reports. Last week, I had to pay \$13.67 to a South Australian GTE to get a copy of one of its reports. Governments have usually taken the view that the user-pays approach should extend to annual reports. When I wandered into the New South Wales Government Bookshop ready to be a user who would-be prepared to pay and asked where I could find the annual reports of some Government agencies, I was told, "They are out the back among the slow-moving items." It seems to me unfortunate that ripping yarns such as the Annual Report of the Sydney Water Board should be relegated to a backroom alongside copies of the Necropolis Act.

Few libraries hold collections of those documents, and those libraries, such as in this building, are generally not open to the public. In the past few years, I have spent thousands of dollars in research funds assembling collections of the annual reports of Government trading enterprises. There is a big problem, mainly because of the frequent restructuring of those organisations, in that there is often no collective memory or library from which to obtain copies of prior years' reports.

Even within Government, it seems that annual reports are revered as archival documents rather than being volumes which are there to read. Most of my career as a researcher has involved doing battle with librarians who find comfort in having items in their collection resting on their shelves rather than on mine.

Recently, I was involved in a research project exploring exactly who reads financial reports, and the findings are rather disturbing. The first stage was to track down who actually gets copies of public sector annual reports. Apart from a few hundred copies distributed to parliamentarians and libraries, it seems that the major recipients are agencies in other states or countries and employees of the agency preparing the report. Very few of the recipients of annual reports are external stakeholders, such as ordinary taxpayers - members of the public.

That minimal evidence contrasts sharply with a story that the accounting profession likes to tell about the users of public sector financial information. A succession of importantly titled documents from the accounting profession have reported that the major users of public sector reports are citizens, intermediaries, credit-rating agencies and others who are either seeking to assess the manner in which the agencies have discharged their accountability for the use of resources or are trying to make informed decisions about resource allocation, or how to vote. The evidence suggests otherwise.

When one reads closely, one realises that the authors of those idealistic statements are talking about potential users of general purpose financial reports, not actual users. They are saying that the potential users are very wide-ranging. If so, we must acknowledge that a lot of money and time is being spent on the production of reports for a potential audience which is showing all the signs of being distinctly disinterested. It would be interesting to calculate how much is spent on compiling and printing some of the more elaborate reports that have been produced in the public sector.

Some years ago, I thought that the Bond Corporation's 1988 report would be hard to beat. It was 140 pages. I have recently seen the 1994 report from the Department of Water Resources, and it is 248 pages. Printing costs were only \$26,000, but I wonder how many days of staff time went into assembling that report and I wonder how many people outside the department have read it in any detail.

This is not a criticism of the local departments. If you are interested in long reports, I suggest you go to the library and look at some of the Commonwealth reports, such as that from the Department of Administrative Services, which is two volumes. I suggest you take a carry bag.

A few years ago, the firm of Gowings Limited became quite popular with shareholders, because it produced no-frills reports - simple photocopied bundles of paper which complied with the Corporations Law and still managed to give investors a fair idea of what the department was doing.

Some years ago, I was at a seminar in Queensland, and a judge who was chairing the session explained that he had a very good idea of how a company was going simply by looking at an annual report. He was an avid investor in mining companies. He said that as soon as they started producing photocopied copies of the report, he knew his money was lost. Maybe that is not a good idea to suggest in the public sector.

Let me return to the research project to which I referred earlier. We also tried to investigate the attitudes of publicly active citizens to information in the public domain concerning the financial performance of Governments. The respondents came from a matched sample of 200 active members of the major political parties in the Sydney region - 100 from Labor Party branches and 100 from Liberal Party branches. We attended branch meetings and distributed some questionnaires, and the results were a bit of a surprise.

Many of the respondents - those people who were actually involved in politics - showed a keen interest in financial matters. A surprisingly high proportion - 23 per cent - claimed to have directly referred to source documents about Government finances, such as Budget Papers or annual reports. Those findings are far higher than those reported from similar studies in the USA, where a 1991 study found that only 6 per cent of registered party members had referred to source documents.

It must be recognised that although the 23 per cent Australian response rate indicates unusual interest in published financial statements, a far higher proportion of those party members relied on reports in newspapers or television: 82 per cent relied on newspaper reports, 72 per cent on television reports.

Another irony was that the most commonly referred-to source documents appeared to be Budget papers, not the glossy annual reports. Although our research design did not permit conclusive findings on that issue - it was not the core of the study - I suppose that there are good reasons to expect that result. After all, Budget Papers have traditionally incorporated actual results for the prior year. That may change when we change the timing of the budget, and Budget Papers appear earlier than the audited annual accounts, so the information is available sooner.

Further, politically active citizens - the respondents to this study - often want to participate in debates on policy and they want to see real result in the form of allocations or reallocations of resources through the budget process, so they probably refer to Budget Papers to mount an argument for particular changes in policy or to see if their submissions were successful.

Let me stand back for a moment and suggest my perspective of the whole issue of annual reporting, that historical financial information is only one element of the set of information which appears to be of interest to politically active citizens and other potential users of information about the performance of Government agencies. Historical non-financial information is also of interest. In particular, I suggest that there is some considerable interest amongst lobby groups and interest groups in the physical state of infrastructure, particularly,

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For example, our roads and waste water systems. Furthermore, prospective financial information in the form of budgets may be of even greater significance than historical financial information. Finally, efforts to evaluate the performance of Government agencies must necessarily involve a mixture of financial and non-financial information, and moreover, a reporting focus on activities, outputs and outcomes.

For that reason, I am reluctant to get too excited about the prospect of Government agencies producing bigger, better and brighter annual reports, particularly when they are hard to access and hard to obtain and when there is such a volume of them that many potential readers might prefer to see summary reports adopting a whole of government perspective.

I am concerned also that so much emphasis has been placed on the implementation of accrual accounting in the public sector - an exercise aimed, it seems, at producing a new type of annual report rather than a more effective management information system for use by public sector managers, including those in central agencies.

So far, I have talked about annual reports without regard to their contents. I have always been curious about the popularity and appeal of efforts to give prizes for the best annual report, particularly as those activities seem to focus on fairly superficial check lists of disclosure and presentation.

As I recall, one of Australia's largest companies of the 1960s, Reid Murray, ranked third in Australia in term of assets, won a bronze medallion in a beauty contest for annual reports only weeks before it failed. A decade later, a company called Gullins was a winner. Two decades, later Bond Corporation was rumoured to be in the running for a similar award just before its demise. More recently, Western Mining Corporation won a prize for its annual report, despite having failed to disclose its accounting policies in relation to mine restoration costs - a matter which, fortunately, it is now rectifying.

If one explores the quality of the information contained in recently published annual reports, one must wonder about the usefulness of much of the data and whether the kinds of asset valuation practices being adopted in Australia's public sector are really cost-effective ways of providing relevant information to the few elusive users of those reports. Worse, the constant change is confusing even to expert readers. As I recall, the Australian Museum changed its asset valuation practices for its major properties five times in six years - all, it seems, in response to official guidelines or standards.

Notions about the merits of using accrual accounting in the New South Wales public sector seem to me to have been promoted with a fundamentalist zeal. Public sector accountants have sat on committees with other public sector accountants, not with users, and decided that the near-mythical users of financial statements should be provided with information about the current written-down replacement value of museum collections, parks, monuments and even land under roads, land under irrigation channels and land under water storage dams.

It would be fascinating to assess how much has been expended on those activities of compiling accrual information of that kind. It would be even more fascinating to hear a reasoned account of what decisions have actually been influenced on the basis of that information and whether there were other, more cost-effective ways of providing information about those public sector assets and of enhancing decision-making processes within the public sector.

Again, the emphasis on producing accrual-based reports seems to me to have been a little heavy in contrast to an emphasis on providing information about the expenditure on particular functional activities within the public sector. An emphasis on program reporting seems to have been accompanied by a lack of attention to where money has been expended. I simply note that the Office of the Council on the Cost of government has found that, to get information about functional activities, it must distribute surveys to agencies; the information is not available in annual reports.

I emphasise that those are just personal opinions, but they are backed by evidence. It is on the public record that post-implementation reviews of the introduction of accrual accounting have found a lack of usage of those reports by public sector managers.

Let me take a broader perspective. It was salutary to find that the 200 politically active citizens surveyed in the University of New South Wales project were unified in having little confidence in the quality of the financial information presented in Government financial reports.

In particular, they were asked what information should be reviewed and analysed by independent experts, in other words, what information could not be taken at face value and required reinterpretation, particularly by media commentators. An astonishing 95 per cent of those active members of political parties nominated income statements and comparisons of actual expenditures to budget results as information in which they had little confidence. Under the present regime of report distribution, independent experts who might want to scrutinise and review those reports find it difficult to obtain them. The evolving technology should make information cheap and accessible.

To summarise, it seems that there are very few users of annual reports and, indeed, other Government financial documents. The presence of politically active citizens as users is an exception, but there are few of them. Worse, some of the major users of annual reports and budget documents do not have much confidence in the quality of the information reported therein and believe it warrants independent evaluation by experts. The Government's initiatives in moving towards a general basis of reporting on the budget will alleviate some of those concerns.

Possibly, those attitudes are a reflection of the highly technical nature of much of what is reported and the lack of opportunities for interested parties to question preparers about the meaning and significance of what has been reported. In the private sector, shareholders can

attend annual meetings. We do not have those. In the public sector, we rely on the floor of Parliament. Maybe there is a need for a wider opportunity for stakeholders to address to managers of public sector agencies questions about those matters in the future.

In my view, the current format of public sector annual reporting places excessive emphasis on financial matters. There may be far more interested readers of annual reports if Government agencies were to start providing concise and user-friendly reports on the objectives of their programs, the resources which have been applied to those programs, and most importantly of all, the outcomes secured by those programs. In other words, more emphasis should be placed on the performance of agencies in providing services to the community. Thank you.

MR RUMBLE: Thanks very much, Professor Walker, for your very informative insight into annual reports, readers of annual reports and accrual accounting. Are there any questions for Professor Walker?

MS McCROSSIN: Julie McCrossin, self-employed, helping Government agencies make annual reports. I understand that the focus today is on the financial reporting side of annual reports, but to your knowledge has any research been done into the readership or use of the non-financial material in annual reports, to which you made that brief reference at the end?

PROF WALKER: Some of the survey-based research indicates that, for example, shareholders tend to read the directors' report, look at the pictures and often do not go further, so there is considerable emphasis by the private sector users on those descriptive studies. We are seeing reforms in the Corporations Law, which will now require, as part of the normal requirements of all companies, a report from management on an analysis of the past year's activities. That has been recognised now in the private sector much more effectively. I have not seen the draft of the legislation. I do not think anyone has. As Michael Lambert was saying, there is an effort to try to introduce similar types of disclosures in the public sector in New South Wales.

MR WARRELL: Chris Warrell, Stock Exchange, ex-academic. One could ask whether you are in that category, too. You pointed out some of the problems of understanding the reports as opposed to an efficient market, and the lack of reading of the reports. You addressed that to a degree by pointing out that others, such as the analysts, act as intermediaries. So the reports do serve a use. I suggest to you that some of the companies that I have been interested in my time - for instance, some of the ones that you referred to - deluded the market by not having the right information in their annual reports. Clearly, the report does have an effect on the market. I have pursued various companies of which I dare say you are aware. I recall that you were involved with one of them.

PROF WALKER: I hasten to interrupt at this point. I said, "Why don't you look at this company?", and he said, "We are too busy with Bond and so and so. We did that company last year."

MR WARRELL: The same thing could apply to public sector reports. You have said that those reports are pretty useless. If they are useless, is it any wonder that nobody reads them? Therefore, is it not worth while, firstly, for us to improve or try to improve the quality and the presentation, and, secondly, not to forget that there are intermediaries here, too? Admittedly, there are slightly different forms of intermediaries, but our parliamentarians through their committees are supposed to monitor those things on our behalf, as members of the public. I would not decry the place of annual reports. I certainly support your efforts to improve their quality.

PROF WALKER: The quick response is: Chris is an accountant, like myself, and one can see that accountants get very passionate about annual reporting. I hope that my comments were not construed as decrying the value of the annual reporting function. I am one of those people who, as an accountant, have been clothed and fed by the annual reporting process. If there were not regulations requiring annual reporting, there would not be an auditing or accounting profession as we know it, so I probably have some self-interest in it. More broadly, annual reports do serve a significant function. The key is to try to find how to make them more effective. I was hoping to delineate my views about the way in which that could come about.

MR McGUINNESS: P. McGuinness from the Sydney Morning Herald and the Age. Firstly, as someone who often acts as one of the intermediaries between The public and the Government on reports of various kinds, as Bob said, most annual reports by Government departments and statutory authorities - Commonwealth and State - are worthless. They are not worth the paper they are written on, even with respect to non-financial reporting. They are usually propaganda and PR exercises. Secondly, even those are inadequately distributed not only to the public in general, not only to experts, but also to the press. The typical Commonwealth process, which the States tend to emulate, is to dump a pile in the press gallery boxes to people who do not have time to look at them and make sure that nobody else gets a copy.

Third is the question of user pays. The pricing of such publications is based on no known economic principles, certainly not marginal cost pricing. It is designed to make the reports scarce, expensive and difficult to access. In particular, the idea that academics, who, however overpaid they might be, are usually not particularly liquid, should be expected to carry out the whole process of acquisition, purchase and so on, and then try to claim every \$13 or whatever

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PROF WALKER: And 67 cents.

MR McGUINNESS: -- back from some other authority is absurd. The costing of those things must be got right. Subscriptions, for example, to a whole series ought to be at prices which are sufficient to discourage the purely curious, of whom there are not very many, and encourage the genuine expert analysts, or even amateur analysts - something like a \$25 a year total subscription price. Thank you.

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MR RUMBLE: Any further questions?

MS McCROSSIN: Based on your talk, surely we should encourage the purely curious. I mean that quite seriously.

MR RUMBLE: Are there any further questions? Thank you. At this stage, we will break for morning tea for about half an hour. Thank you.

(Short adjournment)



**Mr Joe Tripodi MP  
Committee Member**



**Mr Chirs Warrell**  
**Senior Advisor Accounting**  
**Australian Stock Exchange**

## **Annual Reporting in the public and private sectors**

MR JOE TRIPODI, MP: My name is Joe Tripodi, I am the youngest and newest member of the Public Accounts Committee. It is my pleasure to introduce the next speaker. His name is Chris Warrell, Senior Adviser on Accounting at the Australian Stock Exchange. Just to give you a brief rundown, Chris Warrell spent nearly 25 years on the staff of the Department of Accounting at the University of Melbourne, four of them as Chairman of the Department.

During this period he acted as a consultant for various groups, including KPMG Peat Marwick, Ansett Airlines of Australia in their dealings with the Independent Air Fares Committee and the Victorian State Government in their work on rate of return reporting. At the request of the National Companies and Securities Commission he was seconded to that body at the beginning of 1988, for six months initially, but the secondment was extended and he eventually resigned from the university. His positions at the NCSC were first as Senior Adviser, Accounting and then as Director, Compliance and Enforcement.

With the planned change in organisation from the NCSC to the ASC, he changed regulators in July 1990 to join the Australian Stock Exchange as Senior Adviser, Accounting. He was a member of the profession's Accounting Standards Board in 1987 and 1988, and has been a member of the Australian Accounting Standards Board since 1991. So I ask everyone to welcome him.

MR WARRELL: Good morning everyone and thanks Joe. In the document which you have been given you will see that the New South Wales Treasury has indicated that in redrafting the Public Finance and Audit Act it will do these three things. It will:

*bring all current provisions into line with contemporary public finance, accountability, financial reporting and auditing standards;*

I wish them luck with that ambitious objective, but we will talk about the problems they are likely to encounter a little later.

*re-orient the Act away from its somewhat prescriptive and detailed approach to one written, wherever possible, in broad terms with statements of principles and supported by statements of best principles issued by the Treasurer; and*

*adopt plain English.*

Despite the popularity, particularly by academics and ex-academics, of dealing with a topic like this by being controversial, I confess I am hard put to be too critical because the fact is I would have to endorse those three aims. I may qualify the second one a little but I cannot see how anyone can criticise the general principles and the objective.

I shall deal with the last point first, that is the adoption of plain English. We need to adopt plain English drafting in accounting standards, in the Stock Exchange Listing Rules, in the law and as suggested in this particular piece of legislation. The only caveat I would have is that of course the objective is clarity and if you get a purist in presentation and fine points of English who says, "That word is ugly, you can't use it", but you can't think of another word which describes what you want it to describe, use the word regardless of its lack of elegance.

The essence is to be clear and, yes, you will generally be clearer by using plain English than by using the gobbledegook that we find in some of our rules and regulations at the moment.

I think that the first point must also receive our support. Even though you may have reservations about some of the accounting principles being appropriate, your goal should be to apply those principles.

I was interested to hear Michael Lambert say that there will be occasions where it might be necessary to depart from these principles. But if you do, you are going to have to make the departure transparent, you are going to have to report it. I think that is a good way to go. It makes sense that you are generally going to abide by these rules. You will no doubt realise that to bring all current provisions into line with contemporary public finance, accountability, financial reporting and auditing standards will be an utter impossibility to achieve completely. There is no way you can do it. We are going to see in a little while that even within a single statement of accounting concepts you can't achieve what the concept says you should be trying to do, so you are not going to be able to comply with all those quite diverse requirements. But the mere fact that you can't comply isn't grounds for divorce. It is a ground for attempting to achieve a reconciliation, a sensible approach, to following the main points of each of these requirements, to deciding which is going to be followed in an area of conflict or whether there is some middle course.

Staying with this point for the moment, I have included in your paper an extract of about five pages from a monograph I have written for the Research Foundation on Measurement in Accounting. It has not been published yet. One wonders whether it ever will be. They keep promising but never get round to it. I think I am a little too critical of some of the things they hold dear. Perhaps I am just too old and cantankerous.

On that point I should tell you a little story against myself. I have a brother here in Sydney and his son was at a meeting the other day with a group of professionals and amongst them was a partner from one of the big firms. My name is Christopher John, my nephew's name is Christopher James, and when he was introduced the partner from the accounting firm said, "C J Warrell, and spelt like that, you know, I know a guy with exactly that name and he is a right bastard". My nephew didn't know what to say so he just commented, "Oh, that will be my uncle".

This material from the monograph takes us through the accounting concepts. I know it is

a little tedious but I think it is worthwhile having a quick look at what is involved. The Definition of the Reporting Entity talks about general purpose financial reports and describes its application to public sector entities in paragraph 24 where it says:

For entities which operate in the public sector, the implications ... are that most government departments and statutory authorities will be reporting entities.

Whether you agree with that or not I can assure you that although I am a member of the Australian Accounting Standards Board we also have a Public Sector Accounting Board and we work quite closely with them on many issues. In many ways the Public Sector Accounting Standards Board is more gung ho and enthusiastic for change than are we. Perhaps it is because they feel as though they have a cleaner slate than we have in the private sector. I cannot be certain of the reasons being applied in the public sector. I cannot be certain of the reasons but they certainly do not disagree with the approach being applied in the public sector and you should know most of the members of that Board are people working in the public sector.

The objective of general purpose financial reports and the required qualities of the information being disclosed are then set out in SAC 2. You will see that this talks about providing information useful to users for making and evaluating decisions about the allocation of scarce resources. Why they throw in that "scarce" I can't imagine, but they insist on it. Who wants to allocate resources that aren't scarce anyhow? The objective, the allocation of resources, and general purpose financial reports shall disclose information relevant to the assessment of performance, financial position and financing and investing including information about compliance.

Now some of these points you might think apply largely to the private sector, but I don't think you should. There are elements in the public sector where every one of these is relevant, and information about compliance is relevant in both sectors.

When it comes to deciding for whom we are preparing these reports, you will note that it is specified that this is done for the users of accounts. If you are preparing reports for just the governing board or the board of directors then those reports are special purpose financial reports and the board can say, "Do this, do that and do the other" and they get exactly what they want.

But if you are preparing them for a wider audience of general needs it is necessary to think in terms of general needs not of prescriptions by the board, unless those prescriptions are angled towards what the board thinks the general public requires.

Now I accept that in the public sector the users are very difficult to define. In fact I can't define them. But you surely have a gut feel about what is required, about this group, which may, whether directly or through intermediaries, require information from this document, to

see whether this body is performing according to its objectives and guidelines. Is it doing what it is supposed to do? Is it doing it efficiently? How is it allocating its resources? Now these things of course are highly relevant to the board. But they are also relevant to people outside. And if there are users who don't have the right to demand particular types of information then you need a general purpose financial report to provide that information.

It is clearer and easier to appreciate in the private sector where you have informed the shareholders in the company who need to be kept informed and don't always get the necessary information in the way they should, which is what has kept me busy for the last few years.

Now what are the qualities of the information that we are trying to obtain? Statement of Accounting Concepts 3 deals with qualitative characteristics of financial information and it says that relevance means that quality of financial information which exists when that information influences decisions by users about the allocation of resources -

- (a) by helping them to form predictions about the outcomes of past, present or future events; and/or
- (b) confirming or correcting their past evaluations;

and which enables users to assess the rendering of accountability by preparers.

Now that last section is particularly important I would suggest in the public sector, although it is not unimportant in the private sector.

The other definition, which I have extracted from SAC 3 relates to "reliability". You will see in a minute that both "relevance" and "reliability" occupy very important places as characterisers of financial information. Reliability means that quality of financial information which exists when the information can be depended upon to represent faithfully and without bias or undue error the transactions or events that either it purports to represent or could reasonably be expected to represent.

You will see in paragraph 48 that general purpose financial reports shall include all financial information which satisfies the concepts of relevance and reliability and which passes the materiality test, and it goes on to provide some comments on other qualities.

The importance of this discussion of "relevance" and "reliability" and other qualitative characteristics is that we are back to earlier comments on the impossibility of avoiding conflict. For example, if we emphasise the comparability of reports across all industries we shall be foregoing the opportunity to improve the relevance of reports within one industry. That is a problem we have been facing on the AASB and we have upset the insurance industry by providing a standard which says, "Do this in the insurance industry" and they say, "But you are not making others do the same thing". Unfortunately they are quite right, and

that is a less than desirable result.

The problem is that we can see a particular need within the insurance industry for an improvement in the quality of the reports and so we address the problem in that industry. By doing that we have sacrificed comparability between industries and, thus, we have not achieved one of our own goals. The same thing could happen in the public sector. I agree you should have the same broad approach but you are going to have particular types of entities which will have their own peculiar problems, their own peculiar needs, and there is no point in saying, "Oh, we are just going to have general rules".

If you can improve the quality of reporting in that particular sector then why not do so? You should try not to make it incompatible with the requirements of other sectors, but if the need is great enough you may need to sacrifice compatibility in much the same way as the AASB has with insurance. I am not saying that is a desirable consequence, but I see nothing wrong with giving particular requirements to a particular area where there is a need perceived to be in existence for the users of the accounts or of the reports of that sector.

So the objective is to provide useful information to this broadband of users and, yes, you have a set of rules which you are going to follow because it is useful to follow them. But you are not going to treat them as things which you cannot move beyond. They are not going to be chains to bind you, they are guidelines, pretty strong guidelines, but given that you see a good reason to depart from them, go ahead and depart.

I have referred to the conflict between relevance and reliability and the need to adopt some form of compromise. Now, think about what that means. It means that from a purely relevance point of view you are going to have some outlays on things which you think are going to yield future economic benefits which you are going to expense. Now, if you outlay resources on a building because it is going to yield future economic value we capitalise it and show it as an asset. That is easy to deal with. But if you spend funds on some research, research which may or may not pay off, you are left with a problem about how to report it.

I am not suggesting that research is not valuable. This is the sort of outlay which may yield future economic benefits but which you cannot be certain will. I say, don't capitalise it unless you are quite sure that there is value. In fact, I take a position which puts me in conflict with most of my colleagues on the Standards Board because frankly I don't believe you should try to capitalise intangibles such as goodwill.

The fact is that, yes, you can measure what you have spent on a particular item. But the next question is, how much of what you have spent is asset and how much should be expended? If you can't measure that reliably now or in the future, then I would prefer personally that item was written off immediately.

I was amused to hear someone talking earlier, I think it was Professor Bob Walker, about valuing assets and how people spend all their time changing their ideas about what is the

appropriate way to value. Now the importance of valuations depends upon the nature of the asset. For example, imagine trying to value a monument in the gardens, how can you? We have how many people here, a hundred or so,. And I suspect if we went out to value a monument we would come up with as many valuations as there are people present. There is no objective basis to be used. Nor do I think that such a valuation is particularly relevant. But when we return to the valuation of something such as research the valuation is relevant, it is just not reliable. Accordingly, we are faced with a problem and we have to make a decision, a choice between relevance and reliability. I believe that we must achieve a compromise and the compromise should be on that side where the figures you provide in the statutory part in your accounts, the official part, can be verified by somebody else knowing what principles have been applied in the attempt to determining this number.

I cannot leave this topic without referring to some people who put these sorts of assets in the accounts, and where the hell they get the numbers from goodness knows. I mean, there is a newspaper proprietor with whom you would be well-acquainted I am quite sure, perhaps not personally unless you move in the upper echelons of our financial community, but in his balance sheet which has total assets of about 26 billion dollars I think the intangibles, (the trademarks, the mastheads, the licences), amount to more than half that total. Now that is a very large sum of money, and imagine how the accounting treatment of it affects the result.

In Australia we say, "Hey, if you have goodwill you must amortise it over more than 20 years". But if you have identified intangible assets we don't require amortisation. So of course people don't have much goodwill. I think the particular entity just referred to might have a few hundred thousand dollars worth of goodwill, but they have 13 and a half to 14 billion dollars worth of identified intangible assets. And these they don't show at cost, they revalue them and don't amortise.

Just think about these numbers for a second. If we did amortise that 13 to 14 billion dollars worth of intangibles we would be talking 650 to 700 million dollars of amortisation as a charge against profit each year as a minimum. One can understand why he likes to work in Australia and not in some of the other countries in which he operates.

Although the question of intangibles is less likely to arise in the public sector it cannot be ignored. Public sector business undertakings may clearly become involved in consideration of issues like this and there have been moves towards such things as human resource accounting, which in its extreme form would involve capitalisation of the value attributable to the workforce.

That the size and value of the workforce are important considerations in any sort of business is not in dispute, all I am arguing is that attempts to measure the unmeasurable should not be permitted to influence the official part of any sort of report. If you believe it is a material point to be made then by all means make it in the management analysis and discussion but don't go trying to make it look as though you have a precise figure which you have verified and this is the value of your human resource or this is the value of your future

profitability from advertising which has already been undertaken, or whatever past outlay is expected to yield future, but unmeasurable benefits.

Another example of a conflict between relevance and reliability in public sector accounts may be found in the reporting of the value of a road system and its maintenance. A good argument may be mounted for not bothering too much about the valuation at all except for depreciation and maintenance purposes. Think about it. A developer subdivides an estate and puts in a road system. He then sells the properties but he is also selling his road system, isn't he? Without the road system the properties are just not satisfactorily serviced. So I am not too worried about the value of the road system as an asset, but I want something in the accounts and I want it there because we need a basis for determining a depreciation and maintenance charge in the performance report of the authority concerned.

Please understand me. I am not saying you take a percentage of that number which I said I don't care about. I am saying, you need a number in the performance report which represents the cost to you of maintaining that system. That is what is important. Otherwise the authority concerned can make its results look a lot better than they really should be simply by not carrying out some maintenance for a time, by deferring it - "It won't matter if we leave it until next year". It may matter. "The engineers have suggested that we need this sort of maintenance on a regular basis to maintain this system". Now either they are right or they are wrong. I know it is an estimate, I know they can be wrong, but I also know that we are not getting the right picture if we don't get a performance report which tells us that this result looks better than it should because we haven't carried out maintenance.

I am running out of time but let me look quickly at the question of prescriptions versus principles. I suggested in the paper that I support the idea of following principles. But I see nothing wrong with introducing prescriptions if those prescriptions are going to improve the quality of reports as I indicated earlier.

If you do move to follow broad principles then it is important that the monitoring of compliance through the audit also changes to do the same sort of thing. There will still be a need for a review of internal audit procedures with an established audit program and some test checking on the usual basis, test checking, not detailed checking of every item. But the emphasis should be on an overall assessment of whether a true and fair view has been presented or, if I am going to use Stock Exchange parlance, whether the market is adequately informed.

Now, my colleagues who disagree with me on this particular point are inclined to say that you can't define either of those two terms; and they are quite right, I can't. But I sure as hell know when a view expressed is anything but true or fair. And I am quite sure you do too. The objective is to inform the user adequately, not to follow a detailed set of prescriptions. That detailed set of prescriptions will never be adequate to cover every possibility. But the broad principle should always be sufficient.

I could provide you with many examples of failure to give a true and fair view in the private sector, but time limits me to a couple of public sector illustrations. The company that Bob Walker put me on to some years ago did the wrong thing by manufacturing some profits through debt defeasance. There is nothing wrong with defeasing debt. But in this particular case the company was using debt defeasance to manufacture profit, a mere 120 million I think it was.

Its quite easy to do when there are no standards and you are not following good principles. You borrow the money, you split it into present value of the principal and the present value of the interest, you defease the present value of the principal and then you say interest is an expense, therefore I just take the rest of this amount into profit as a gain for this period. That is where they got their 120 million.

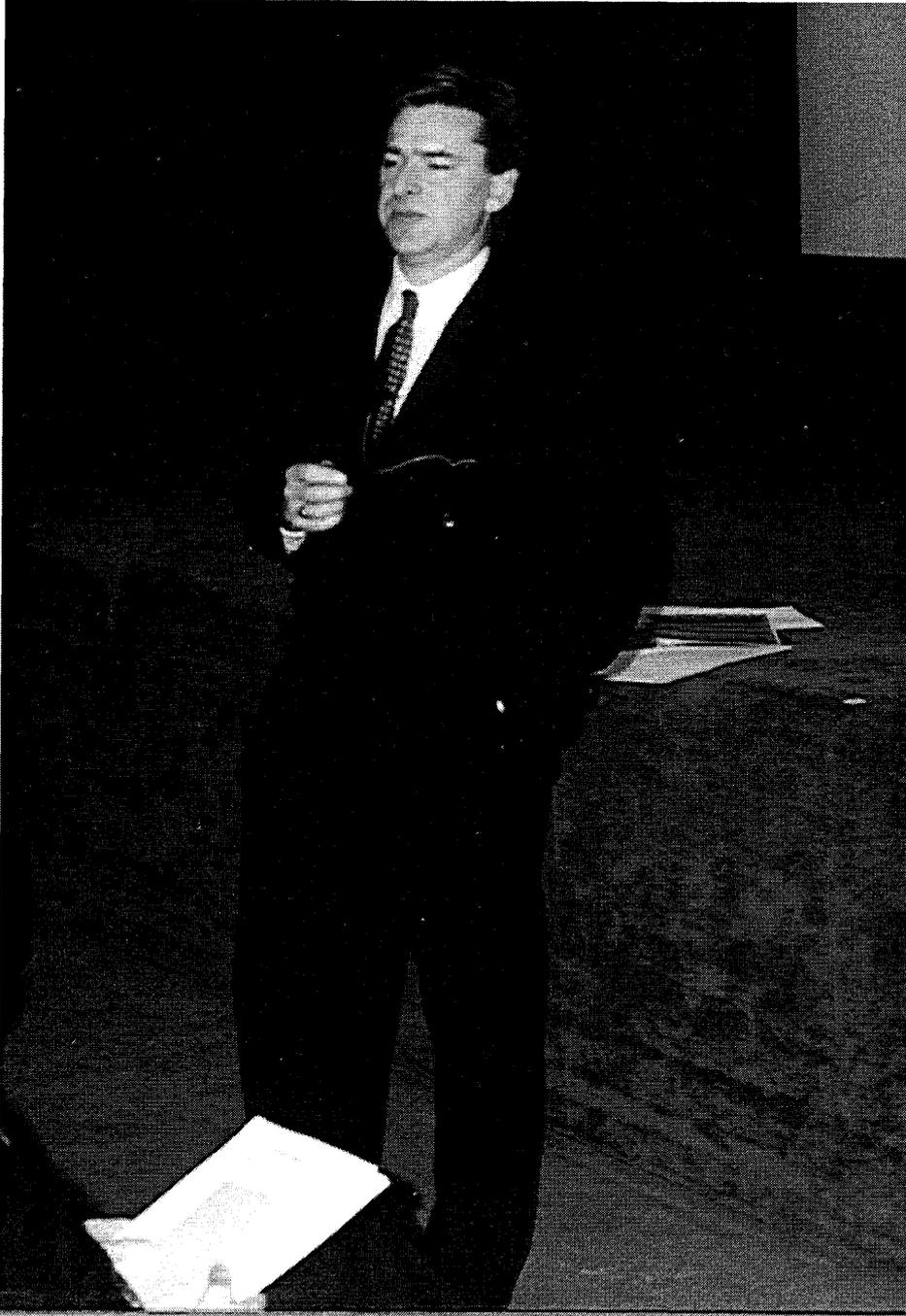
Now, that is just a load of garbage. The fact is that your liability is the gross sum. Sure, the present value can be split into the present value of repayment of the principal and the present value of the repayment of the interest, but that does not justify treating future interest payments as profits! The point I want to make to you is that the other end of the defeasance transaction requires a nice safe tax free entity; and where did they find this nice safe tax free entity? In the public sector. The public sector entities weren't worried. They were making money. Did they break any rules? Not one. Did they break any broad principles? In my opinion, they did.

The other example is a little closer to home for you people. I had to deal with an interesting one in the public sector a few years ago, a public sector entity which had some rather doubtful and very large debts. So what did they do? They arranged for two directors of this public sector entity to set up a \$2 company. They put in \$1 each. The public sector entity then lent these directors 1 billion dollars and this little \$2 company used the money to purchase some of the more doubtful debts from the public company.

Now, officially these directors were not setting up a separate company for the public sector, they were doing it for themselves. They borrowed the 1 billion and purchased the debt. That meant that the public sector entity's financial position looked a hell of a lot better than it should have and the other company, being an exempt proprietary company, didn't have to report. Now, I am not saying that this is the norm in the public sector, but I am saying that the principle of providing true and fair accounts or some such other phrase is what has to underlie your future work. And moving doubtful debts off balance sheet ain't true and it ain't fair.

Thank you for the invitation to talk to you this morning. I have enjoyed it.

MR TRIPODI: We might very quickly field any questions now, before we go to the next speaker. If not, I thank Chris Warrell again and we will move on.



**Dr James Guthrie**  
**Associate Professor of Management**  
**Graduate School of Management, Macquarie University**

## **Annual Reporting for Government Agencies: what is the future?**

MR TRIPODI: The next speaker is Dr James Guthrie. Associate Professor of Management, at the Graduate School on Management, Macquarie University. His special research interests include accounting, auditing and accountability issues in both the private and public sector. This is reflected in his joint-editorship of the international Accounting, Auditing and Accountability Journal.

His recent consultancies includes as an expert for the OECD on "The role of Audit in Performance Improvement in Government"; also a survey of environmental reporting practices in annual reports for the New South Wales Environmental Protection Agency; and consultant to the Commonwealth Committee on Public Accounts on social responsibility in annual reports; consultant on public sector commercialisation for the Committee for Economic Development of Australia. He has also appeared as an expert witness on productivity and performance measurement in the public sector for the Industrial Relations Commission of New South Wales. In addition, James has co-edited three books on public sector management and accounting developments, so we welcome him.

ASSOCIATE PROF GUTHRIE (Graduate School of Management Macquarie University): Thank you very much for the invitation to come here today to address the group. I wish to make a few points following on from this morning's sessions to show where I stand. Unlike Paddy McGuinness and Bob Walker, I believe agency annual reports are very important; they are a worthwhile exercise.

The other great insight I have gained from this morning's session is now I know why my social life has suffered at dinner parties because, in the last few years, I have been telling people that I read public sector annual reports and clearly that is not the way to go. I think it would better if I were to go back to my other line, which is "I'm a chartered accountant". Hopefully, my social life will improve after that.

The point I really want to make is that I suppose I am a little bit unique in that, because of my consulting work, and more importantly the work that I have done in the Industrial Relations Commission in New South Wales, and WA and a number of enterprise bargaining cases, in the last couple of years, I have actually examined over 400 public sector annual reports. I have had to read them in some detail and to analyse them. So I come from that perspective; that is, a user perspective of these annual reports which have been used in a specific case, namely, the question of productivity and performance in public sector industrial relations' cases.

As has been mentioned, I have also done some work on environmental disclosure with the New South Wales EPA. In my own research interests, I have done such things as examine BHP's annual reports over 100 years and I have tried to make an argument on their social and

environmental reporting. So annual reports are something that I deal with a lot and am involved with.

I have written a paper and you all should have a copy of it. I will only talk to a few points on my paper. It is quite detailed, but there is one note of omission. You will see, when you get a chance to look at it later on, that point 8 is supposed to talk about the future, but there is nothing there; it is blank. I think we can just put that down to running out of time and not trying to predict the future too much.

In part 7 of my paper, I detail several recommendations which are contained in my submission to the New South Wales Public Accounts Committee. If you have not seen the issues paper that the committee has released, I can tell you that it is a very good document because it poses many questions. I think that it puts all the questions associated with annual reporting in the public sector in an interesting format and it gives us a way to think about where we are now when it comes to this important accountability document.

What are the main themes in my paper? I run with two main themes. The first theme is that parliament should be the primary target audience for annual reports; and the second is that it is important that performance measurement and information should be the key aspect of the annual report.

To me, annual reports are not just general purpose financial statements. We heard some discussion this morning about the introduction of accrual accounting. We have heard a lot of talk over the last five years about this and about the need for general purpose financial statements. I see annual reports as being greater than just general purpose financial statements, and that applies to both the private and the public sector.

I have identified three main issues within the paper which need to be thought through. The first issue is the lack of systematic review by parliament of annual reports. There needs to be some way that we can get a systematic review in the institutional frameworks of the parliament so that parliamentarians can review the annual reports.

Second, there seems to be a move towards reducing the so-called regulation and black letter reporting requirements. This is the Treasury's position at the present time. I suppose if I prepared annual reports, one of the things I would be telling the Public Accounts Committee is that, "I do not want any regulations; I just want some principles to follow. Make the principles as broad as possible and we will make sure we conform to them." That seems to be an issue that we have to confront.

The final issue is the dominance of financial information over other information sets, especially when we come to talk about agencies in the public sector. Maybe it is just because I am academic accountant who tends to read accounting material, but it seems to me that debate has been captured over the last five years by economists and accountants. But when we talk about performance in the public sector, it is more than just financial performance.

In terms of the main arguments, the first is the scrutiny argument: we need to have some sort of systematic scrutiny of annual reports. Maybe one way to do that is to follow the Commonwealth example. As many of you would know, under the new Commonwealth parliamentary committee system, early in the year the members of the Estimates Committee - it is not called it an Estimates Committee any more, but I will use that term - review the estimates. In November the Committee reviews the annual report and actually have to form a view on them, which they then report on to parliament. The information is built into a life cycle; that parliamentary committee reviews the annual reports and forms its judgments on the strengths and weaknesses in the annual reports.

Moving to the second argument, which is the consistency argument, we have been let down by central agencies in that there needs to be consistency in that life cycle of information especially with regard to the overlap between estimates and other budget requirements, other reporting requirements and the annual report. For example, annual reports, in terms of objectives, should be reported in terms of programs, if that is a requirement in the budget, so from the future-looking information, which is the estimates, to the past information, which is what is reported in the annual report, we can follow through some of the activities in the agency.

The third argument is what I have called the rationalisation of annual reporting requirements. In this mad rush to reduce these-called regulations, what will we reduce the annual report to? I think we should have a performance focus. In New South Wales, we should move to the performance focus. That may mean keeping many of the items we have at the moment but just rejigging them in such a way that we can have a performance focus. The main aim of the annual report should be to report the performance of that entity for the period of time covered by the annual report.

The fourth is the change or coordination argument. I am worried that we will remove information from annual reports, and this is what has happened in the Commonwealth; they have said, "There is a lot of information that is not referred to by users; it is redundant." If we remove that information, I am concerned about what will happen to information on certain sorts of activities such as EEO or maybe environmental disclosures or reporting on the performance of senior executives.

What I would like to see, firstly, is that this information be made available on request, which is a requirement in the Commonwealth where there is a five-day turnaround. So any information that was in the regulations that has been removed, can still be requested and it has to be provided within five working days. Secondly, and more importantly, there should be some central coordination of this information so it can be collected and reported.

That brings me to my view of what is 'performance'. If we are going to have a performance focus, we really need to go back and think about what public sector management is at present. In New South Wales we can talk about managerialism, corporate management and the principles that underline that. Maybe when we move to a new view of public sector

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management, being one of contracting - the contract state - then we will redefine performance. But I will stay within the bounds of what exists now, which is the managerial view of public sector management.

One of the things most of us would be aware of is the need to set objectives, and this even impacts on universities. Yesterday, the head of my graduate school called me in and I am now responsible producing the performance report of the school. I have to start setting some objectives and some achievable targets in terms of outputs and outcomes. So managerialism has even crept into places such as universities: So the first notion, of course, is that of objective setting.

The second principle is the notion of individual responsibility and autonomy and coming with this, of course, is accountability for one's actions. The third principle is that of holding to account and what is interesting here is that it be by objective performance against an agreed benchmark. These words are taken from a recent publication of the New South Wales Treasury.

When I went back and read the report of the Coombes Royal Commission, it was very interesting that when it promoted the accountability management framework, which was the precursor to managerialism, one of its key requirements was the idea that we have some sort of pre-agreed benchmark for performance. Public accounts committees were to turn into committees to review public administration; auditors-general were to review these performance benchmarks which were going to be predetermined. That is 20 years ago. I am not quite sure how far we have moved on since then.

The fourth principle, is that we will be given incentives to be creative managers; and finally the rhetoric is that we will remove those sorts of hindrances that make us as managers a little bit different from our so-called private sector counterparts.

Then what we really have to do is move towards a view on accountability for performance. The first point is that annual reports are only one of a whole range of accountability instruments. Let us not get too carried away. I think they are important - Like Bob Walker, it pays for my clothes and my dinner and that is my area of research - but there are many other instruments available in terms of accountability; it is one of many.

The second point is that the dominant trend in the last decade or seems to be that there are more requirements to be accountable to central agencies rather than accountable to parliament. That is why I am trying to reposition parliament as being the central part of accountability as far as annual reports are concerned. Of course, we know about the argument that annual reports at present have been captured by the public relations community. Now I am not quite sure on that. I know some of them are glossy; some of them are long - 200 pages; some of them are printed on recycled paper. My argument here would be that maybe we could reduce the cost. I think the publication cost is very minimal; there are other costs such as the collecting of the information. Most of this information is collected

anyway for internal management purposes. Managers would need to know whether they complied with certain requirements. I am mounting an argument here for: Let us not think about making them glossy; let us think about the quality of annual reports and their purpose. Let us sort that out and the other things will fall into place.

For me, the primary purpose of annual reports should be for the agency, in the first instance, to report to the minister, of course, and the minister will table the report in parliament; in the second instance, the agency reports to the parliament; and in the third instance, it reports to other stakeholders. In my paper I list the other stakeholders as taken as given. We have had a discussion about them; I am not going to get involved in that debate. But what is important is that we have a performance focus.

The secondary purpose or other roles for the annual report, is that, firstly, it is an important historical document. It is a document that reflects and creates an organisation for a period of time and it highlights what senior management thinks is important in that organisation at that point of time.

Secondly, it provides to other stakeholders an access into important public sector entities. It provides easy access, i.e., they can get hold of the annual report and they can read about programs, they can read about activities, they can read about financial expenditures, receipts and other things in a form that is readable.

Thirdly, and I have no problems with this, annual reports are a marketing tool. In the private sector, most people would agree that annual reports are used in a number of ways. If people are going to buy shares, if people are thinking of taking up employment in an organisation, the annual report is one of the key documents they will read in order to get a feel for what that organisation is all about.

As I have mentioned, the primary purpose to me is that we need to reposition parliament and performances the key aspect of annual reporting. That really gets us now to performance information. What is this thing called performance information? Like Michael Egan, I had a bit of an insight into the past in that over 10 years ago, I was asked to comment on a New South Wales Public Accounts Committee draft report on performance of departments. I actually found those documents four weeks ago when I shifted office and had a chance to read them. I was very surprised or maybe I was not surprised - as I get older these things come around in circles - to note that a decade ago, this debate was being carried out in the PAC in terms of trying to think about performance of government agencies.

If you go back to that report you will see some of the sorts of things I am talking about today being talked about then. Maybe the difference was - I think Michael Egan was right - that in the early '80s we talked about time limits. You had to get your annual report in on time; secondly, we talked about the need to have consistency - that is, you had to have financial statements which were consistent with the regulation; and, thirdly, there was the need to actually produce an annual report.

We have moved on a long way from that point; the debate has moved on. The point is that performance was an important part of that debate in 1985. What has happened is that, in New South Wales in particular, there has been a lack of guidance, a lack of prescription concerning what we mean by performance indicators and performance information in the annual report. The regulations require it. If you read the Treasury directives, they refer to efficiency and effectiveness, dah, dah, dah - full stop. There could be a debate that is prescriptive. I really do not see that as being prescriptive. I see that as some sort of principle; that is, performance information has to have efficiency and effectiveness.

Of course, the debate about performance and performance indicators is a lot deeper. Part of the debate has been that there has been non-compliance. The Auditor-General has been employed by Treasury to look at some annual reports, and surprise, surprise, finds that they are not reporting as per the regulations in some specific areas. But when it comes to performance I ask the question: Does non-compliance occur because people are trying to avoid those regulations and directives or is it because there is a lack of specific guidelines or monitoring and feedback and an education campaign as to how performance can be reported in the annual report?

That brings me to my key challenges which are at the back of the report. It is very unusual for an academic actually to put forward some proposals for a change, but seeing I am in a graduate school now, I have to be part of that sort of thing. Rather than being critical and talking about past events, I am trying to say: What can the future look like? What are some of the challenges?

The first challenge is consistency. I think there needs to be some sort of prescribed format. This view of going to principles is all right, but I think there really needs to be detailed prescriptions and guidelines, especially when we are talking about performance information. When we are talking about terms such as efficiency effectiveness, outputs and outcomes, they are very slippery and there needs to be some guidance and some way that we can come to grips with them.

Secondly, I talked about parliamentary scrutiny. Thirdly, the reporting of audited performance information is important; and fourthly, there should be prescriptive guidelines. Then I end up by saying that we really need to adopt a performance approach. That is easy to say that, so I looked for some models. Lucky for me, I found a couple of models where that performance is approach in place. I note the Auditor-General intends to refer to the Western Australian example. Western Australia has had a performance approach in its annual reporting. Recently on my travels, I met some people in Sweden. I found out that in Sweden for a number of years, they have actually had a performance approach. The Auditor-General actually signs off the performance report, which is one part of the annual report.

More importantly we should have a compliance statement. The compliance statement is something to the effect that the director or the chief executive officer believes the annual

report has been prepared in terms of the guidelines and in conformity with the regulations. This will help focus senior management on those requirements in the annual reports.

In terms of measures to increase level of parliamentary scrutiny, I make some suggestion on how they can institutionalise the review of annual reports. To solve Bob Walker's problem in terms of availability of annual reports, there is a requirement at the moment that annual reports have to be submitted in electronic form. Being a naive academic, I thought, "Great, this will be easy to research. I will just get this electronic form, put it on my hard disk, search it and I can look for environmental disclosure or EEO reporting." So I went to Parliament House and I said, "Can I please have access to the electronic form for my research?" Everyone was very helpful. The clerk was very helpful, and I was told, "Yes, you can. Go and see XYZ." So I went off to XYZ. He said, "Yes, it is not a problem. No one's ever asked for this before. Here is the box."

Unfortunately, the box was full of a lot of five-inch and three-and-a-quarter inch disks, magnetic tapes - a bit of hard disk was in there too - indifferent formats. The information was useless because there had been no prescription as to how the electronic form was to be provided. Most of us would know now that if that material was in a useable form, we could put it on the Web. We could access it through the parliamentary library, there would be no cost involved in it and we could review it to our heart's content to get the bits and pieces of information we want to use. I will leave it there. Thank you very much.

MR TRIPODI: Any questions?

MR WALTON (Building Services Corporation): Do you have any examples of annual reports being available as a home page or on the Worldwide Webb?

ASSOCIATE PROF GUTHRIE: That is a very good question. In the private sector, there is an academic literature on readability and about making annual reports available in communicating through video and that sort of thing. If I can get your card from you, I will send you an address so that you can contact the relevant people.

But as far as the public sector is concerned, at present I understand at the Commonwealth level that the Department of Finance has a coordinating group which is putting up not only its regulations but is trying to move to the stage in the near future where parts of annual reports are available. As you can imagine, we cannot expect to get all the glossy pages. If you work from home, as I do, with a slow computer, the last thing you want is glossy pages and great big graphs which take a lot of time to download. Hopefully, as far as the Commonwealth is concerned, summaries and parts of annual reports will be available in the near future. There is a working group working on that project at present time.

MR TRIPODI: There being no other questions, thank you very much, Dr Guthrie.



**Ms Carol Davies**  
**Director of Equal Opportunity in Public Employment**

## **Reporting on EEO - how to make it effective**

MR TRIPODI: It is my pleasure now to introduce Ms Carol Davies from the Office of the Director of Equal Opportunity in Public Employment. Carol Davies was appointed Director of Equal Opportunity in Public Employment on 11 January 1993. Carol describes herself as a people manager.

She commenced her public service life in the mid sixties and worked for 10 years in the personnel and staff functions of Technical and Further Education and a further 10 years developing and implementing personnel and EEO policies at the former Public Service Board. In her last position, Carol was the Director of Personnel at the New South Wales Police Service, responsible for the implementation of integrated employee services as well as personnel and EEO programs.

Since her appointment as Director of Equal Opportunity in Public Employment, she has implemented a number of major changes in the way the office functions and a new approach to the content and style of their publications. The office now works in partnership with agencies and members of EEO groups to achieve full employment equity. The office publications are practical in content and provide strategies to assist in the successful implementation of equal employment opportunity. So could we welcome Ms Carol Davies.

MS DAVIES (Director, ODEOPE): Good morning, gentlefolk. Those of you who know me would be aware that I have returned this week from three months abroad. I am here; my body is here; but my head is still in Europe, so bear with me. I have brought only 400 slides to show you of my trip, so we should have an interesting chat.

I have been asked to talk about a particular aspect of annual reporting, and that is EEO. I find it very interesting that I have been asked to talk about that, because EEO comprises only a page and a half to two pages of what can be a 200-page report. I am delighted to do so, because this aspect relates to what I think is a major asset of all organisations, and that is its people. It is important that we put into focus some of the things that have been said, because we should not overlook the people aspect of our organisations.

Because I have been asked about EEO - equal employment opportunity - reporting, I will talk about three major things. I will give a brief history of EEO reporting and its objectives; I will talk about the current reporting; and then I will talk about some of the initiatives that our office has undertaken to make EEO reporting more effective.

As historians are fond of telling us, making sense of the present and planning for the future requires an understanding of some of the past. Here is a potted history of EEO. In 1978, the election policy speech of the Labor Government of the day stated that the Government will act and, where necessary, introduce legislation to ensure that Government bodies undertake positive programs to remove a legacy of decades of discrimination against women, against migrants and against Aborigines. Therefore by legislation, the Government

required public agencies to develop and implement positive steps to eradicate discrimination in employment and promote equal employment opportunity. That was a major social reform program.

The legislation requires that agencies develop plans with objectives, actions, timetables and, where reasonable, targets in terms of improvements in personnel statistics. At that time, our office - the Office of Equal Opportunity - was also established. Our role is to assist, advise and coordinate Government bodies in drawing up EEO plans and to evaluate the progress of those plans. That led to the reporting requirements that were established in 1980.

It is interesting to note that the EEO reporting requirements were implemented prior to the Annual reports Act 1984. That resulted in a situation in which the major instrument used by organisations to show their accountability to the public - that is, the parliamentary annual report - did not include EEO reporting. That situation was reviewed in 1989. At that time, the Directors-General of the Premier's Department and the Treasury decided that, whilst they had some initial attraction to consolidating EEO reporting into parliamentary annual reports, they recognised that EEO as a Government policy objective required special and continuing focus.

It was argued that EEO reporting sat sensibly with the Anti-discrimination Act as a key element of the Government's action strategy. It was further argued and importantly noticed that EEO reporting would swamp annual reports, and it was important that we had some way of having personnel data, across the Government sector, on its employment strategies and of the employment status of its staff.

At that time, it was concluded to adopt the Australian business approach, which was to have only the highlights of the EEO program, supported by statistical information, in annual reports. That was done by regulation. Currently, we have an executive summary of an agency's EEO program, with some statistical information, in the parliamentary annual report, with a more comprehensive annual report to our office.

That approach is still relevant today. It acknowledges that the EEO program is a major but long-term reform strategy. In my office, we thought about the background and asked, "Where are we at in 1995, which is over a decade since all this happened? How effective is the fundamental source of personnel data across the Government?" Last year, we initiated a consideration of what was happening. We did a review of the parliamentary annual reports in about June last year. We did them for departments and authorities only, and we looked at 91 departments and authorities.

We found out that only 58 per cent of the 91 annual reports included the EEO data required by regulation. Further, 82 of the 91 agencies - that is, 90 per cent - included data on women. That means that 10 per cent of agencies in the Government still do not know their men from their women; 74 per cent of agencies - that is, 67 agencies - included data on people with non-English speaking backgrounds; 65 agencies - or 71 per cent - included data

on aboriginals and Torres Strait Islanders; and 58 agencies - or 64 per cent - included data on people with disabilities.

We then looked at our own comprehensive reporting in terms of a whole of government database. We showed that 52 per cent of all staff in the public sector had EEO data on it - only 52 per cent. In health services, it was as low as 27 per cent. So we looked at that and said, "This does not look like a very good picture, so what could we do about it? As a central agency accountable to Government on the EEO program, we have a responsibility to assist you."

As Professor Guthrie said, if we are to set standards and guidelines, we must have prescriptions on how to do it. We then went about figuring out how to do that - how to get the taxpayers' dollars working better. We therefore thought, "Why would we want to have EEO reporting in the first place? Do we really need it? If we are not getting that sort of data, do we really need it?"

We definitely believe that we do. We need it for a number of reasons, to name a couple: To evaluate the progress of employment policies within individual agencies and the Government as a whole and compare that progress over time, to monitor and to demonstrate the access to the community of public sector employment opportunities, to ensure that the sector benefits from the skills and talents in our diverse community, to assist in developing effective policies, and to demonstrate to the community that the sector is taking a lead in quality leadership and personnel practices.

This morning, I will show you a couple of graphs, which will give you a small taste of what we will be able to do if we have comprehensive data. The first set will be a series set and the second is a snapshot of one situation. The first in the series is the employment status of women over time. I put that up to demonstrate to you that there are still some attitudes out there that we must deal with.

The next one is our source document from the Bureau of Statistics, which shows the employment status and earnings of women over time. You will be pleased that the New South Wales Government is ahead of other employment areas in the State, using the ABS stats. You can see that there has been continual growth for women in employment over time.

Then we move to the employment status of women. Using the information available in our office, we can tell you that women above grade 10 are now at just above 25 per cent, which is not exceptionally fair, nor exceptionally representative. Although we have been doing a lot of programs for women, we still have a long way to go.

The next slide is of even more concern. It represents the women in the Senior Executive Service and the Chief Executive Service. We have used the Premier's Department stats as the source for this slide, which shows that women have patchily improved in the Senior Executive Service since its inception in 1988. However, although women represent 52 per

cent of the work force, they now represent only 14 per cent of the Senior Executive Service. The EEO program is along-term program, and we still have a long way to go.

I will now show you the situation that the ABS found when it did its 1991 census. The New South Wales Government is doing quite poorly in relation to the employment of persons with non-English-speaking backgrounds. That is the sort of information that we could have if we had qualitative, reliable and consistent data. As I mentioned, to get that, we as a central agency have a responsibility to assist you. That is why we initiated that review. You may be aware that we have also surveyed a number of departments to find out how we can be more helpful. Together, we can get there.

To make it better for you, our office has simplified our EEO statistical reporting tables, which were quite complex tables, as those of you who have ever dealt with them would know. We did that following consultation with a variety of agencies, which has already led to more than 50 per cent of agencies adopting those tables. I say to those of you who have not adopted the tables that we expect in 1995 and 1996 a 100 per cent adoption of the tables. Our developing those in a more simplified form has been very useful for agencies and more useful in terms of how they might use those tables. I will talk more about that in a moment.

We also give you an automated version of our EEO tables in spreadsheet form to make using the tables a lot easier. That has been a great success. I understand from my staff that, in terms of agencies who have limited staff resources, the down loading of information on the spreadsheet has been an outstanding success.

Like the Treasury, we have done the models of good practice. We did a survey on why some agencies get 100 per cent EEO reporting and other agencies get nil per cent EEO reporting. That has led us to do a research project to identify and promote models of good practice. That is what we have done to date.

For the remaining half of 1995, we will carry out further consultation with representative peak bodies of EEO groups, publish terms of EEO reporting and develop a resource kit for EEO data collection, including the models of good practice to which I referred. We will also conduct a training program for agency staff who are responsible for EEO reporting to allow for more consistency of approach.

To foster those agencies that have been less than enthusiastic about getting their act together, we will have an EEO data collection week on 13 to 17 November, where participating agencies and ourselves will cooperate in getting resurveys done. If that is completed satisfactorily, it will allow us, for the first time, to have comprehensive personnel data across the sector, which will allow us to show you how your agency is going in comparison with other agencies, and you will be able to use it yourselves for a variety of reasons.

Without thinking too much about it - because, as I said, my head is still in Europe - you

could use your EEO data as a regular management information base in developing enterprise agreements, in developing staff development and management training programs, in the important issue of restructuring, which we are all very busy with, in the employment policies that you may be developing, in responding to representations, such as ministerials, complaints and the like, in responding to or initiating publicity about your organisation and in marketing the success of your organisation.

The survey that we did demonstrated also that 68 agencies have computerised human resource information systems in operation. However, another 20 agencies are in the process of developing those systems, and another 27 are planning. In the foreseeable future, all but a handful of agencies will be able to present that data in a computerised form.

Recent reports, such as the Karpin report, have demonstrated to us that the quality of our agencies' performance is dependent on the quality of our management and, therefore, if we are going to respond to an enterprising nation, we must have an agency which is representative of the community in which we work and live. Capitalising on the chances of our community requires that we have not only a work force but also an executive and management team which is representative, which opens up opportunities for the underutilised groups and which obtains senior management skills and abilities from all those groups at every level of the organisation.

I believe that for EEO reporting, like annual reporting, to be effective, we need to work together and we need to work with Treasury to decide what is to be expected, so that we achieve consistency across the government. I am attracted to having certain sections of annual reporting pulled out into one report, so that we may have a section on financial accounting pulled out into one report.

However, I am not attracted to removing from annual reports much of the fundamental data that is in them now. It is in that way that not only the clients of the organisation but also the staff of the organisation can show their contribution to New South Wales. I do not think that should be overlooked. Much of the staff in agencies work very long and hard in their contribution to the performance of those agencies, and it is by the annual report that they get a bit of a buzz out of their contribution, so I do not think that should be overlooked.

I will finish early with a quote from Karpin: "Economic improvement cannot be separated from social development, nor efficiency from equity." Thank you.

MR TRIPODI: The first question?

MS McCROSSIN: Julie McCrossin, self-employed, helping people with annual reports. Can I take this opportunity to express a certain sense of disappointment - and this is not directed directly at you, Carol. When I wrote away for my booklet on the annual Reports Awards, Australia documentary, reproduced in the back of the Public Accounts Committee's discussion paper, I found that the Public Accounts Committee comprises all men. Of the 17

speakers today, two are men.

A common explanation might be that the speakers for today were chosen because of their levels of seniority and their important functions, and I understand that. One of your interesting charts showed that just above 14 per cent of women are in the SES. This question may be difficult for you to answer as you have just lobbied from Europe: In your office or anywhere, has any thought been given, in the meeting of a commitment to cut the SES by a certain percentage under the Carr Government, to a monitoring process to ensure that target groups, such as women and people with non-English speaking backgrounds who may have lobbied into the SES, are not disadvantaged during that culling process that is going on to meet a promise?

MS DAVIES: Thank you for that non-controversial question. Prior to my departure for Europe, I held several meetings with representatives of the Public Employment Office and others in relation to the changing of the Senior Executive Service. There is strong recognition not only by Government but also by senior representatives within the Premier's Department of the need to not go backward in the small progress that has been made. I assure you that the representation of women and other EEO groups is a key consideration in that.

I cannot talk about what has been happening in the past three months, but I know that subsequent meetings have been held in my absence, and I already have scheduled for next week a meeting in relation to that very question. This issue is very important. It is important not only in terms of representation but also in terms of diversity of skills that the New South Wales Government has at its disposal. Thank you for the question. I am pleased that I am not the only person who is concerned about the issue.

MR CREW: Paul Crew, New South Wales Treasury. Firstly, I congratulate you on the initiatives that you displayed in upgrading your data collection processes. As head of an organisation, I am only too conscious of criticisms that we get quite regularly about lack of progress or lack of action in addressing the EEO question. You mentioned that you have a data collection week coming up in September. How might we assist in that process? How might staff of my department assist in furthering the outcomes of that process?

MS DAVIES: Thank you, Paul. We would be delighted to have New South Wales Fishery as part of the process. It is a volunteer process for those agencies that believe that their EEO data collections not up to scratch. It is a good way in which they can now move from nothing to something in a standardised form. We are working with agencies to design the survey form so we will have consistency in the questions asked across the sector. It will be held in the week of 13 to 17 November, not September. I will be delighted to see you as early as next week to involve you and Patrick, who is sitting beside you, in our volunteer agencies. Thank you.

MS RUTLEDGE: Pam Rutledge from the Department of Housing. Carol, could you comment on the implications of the changes you have mentioned for the five-yearly survey

across the sector as a whole?

MS DAVIES: In 1985 and 1990, a comprehensive EEO survey was done across the sector. It was an attitudes survey on where we are at in terms of EEO. That was one of the objectives behind our doing our review last year and our work this year. It was an enormous exercise in terms of energies of people and funding, and we came to the view that it was a detriment in terms of agencies getting their act together in relation to their regular reporting, because they knew they would have to do that comprehensive one every five years.

Therefore, we have decided not to do one in 1995. Those of you who were involved in them will be pleased to hear that. Our strategy in holding a data collection week is that we will have comprehensive data from then on, so for each year we will be able to do that. We will support that with surveys on particular issues that may be current at the time, and our first one will be on harassment, as you would appreciate. So whilst we will not have survey data across the sector, from time to time we will do sampling across the sector on issues that are current at that time. Thanks for the question, Pam.

MS PRIESTLY: Wendy Priestly, Office of the Council on the Cost of Government. Some of the EEO data that is presented both in annual reports and in the EEO report gives a fairly static view. We have a number of women, Aborigines and so on in the various grade levels, but we do not have any appreciation of, in terms of good management practice, an increase in the number of people throughout the organisation at those levels. We do not have any sense that there has been a progression or there has been an improvement. In terms of what the community is looking for in agencies and in terms of reporting to Parliament, has the level of expenditure of, say, training on those programs given back to the community any value in terms of policies that they have put in place? Have you thought about looking at some of those dynamic indicators that would show that progression rather than those static views, which don't tend to indicate that sort of thing?

MS DAVIES: We have, Wendy. In terms of responses to agencies' EEO reports to us - we give those responses back and we talk with them about those issues. We have not done that on a sector-wide basis yet, because we did not feel we were in a position in which we could, but I share your view about that. I am sad to hear about the change in the Federal legislation in relation to the 2 per cent training budget. Nevertheless, I share your view about that. That is the direction in which I would like to go in terms of whole of Government reporting as well. Thankyou.

MR TRIPODI: We will now move over to lunch. For those of you who are joining us, I apologise in advance that you will listen to another male speaker. We will convene there at 12.30. I thank all the speakers very much for sharing their wisdom and knowledge with us. Thank you.



**Mr Ken Baxter**  
**Director-General, Premier's Department**

## **Luncheon speaker**

MR RUMBLE: Ladies and gentlemen, this lunch time we have the privilege of being addressed by Mr Ken Baxter, who is the Director-General of the Premier's Department in New South Wales.

I will just give a bit of background in respect of Ken prior to him addressing us. He attended Fort Street Boys High School, matriculated with First Class Honours in economics, was awarded the Sir Bertram Stevens prize for economics, and was awarded a Commonwealth and BHP non-bonded scholarship to the University of Sydney.

He is a Fellow of the Australian Institute of Management and a Fellow of the Australian Institute of Company Directors. From 1988 to 1992 Ken was the Deputy Director-General of the Premier's Department, New South Wales; Chairman of the Hunter District Water Board Corporatisation Committee; Chairman of the Grain Corporation of New South Wales Privatisation Committee; Member of the State Management Council; Chairman of the Olympic Games Project Committee and adviser to the Premier as Chairman of the Olympics Bid Limited.

From 1989 to 1990 he was Chairman of the Darling Harbour Authority of New South Wales; in August 1992 he was appointed Chairman of the Australian Dairy Corporation and also Chairman of Aust dairy and a director of Thai Dairy Industry Co Limited. In 1992 he was appointed Secretary, Department of Premier and Cabinet, in Victoria; Chairman of the Public Service Board, a member of the State Superannuation Board of Victoria; Chairman of the Council of Australian Governments Electricity Industry Reform Committee, and member of the Victorian Electricity Supply Industry Reform Committee.

Since the State elections in New South Wales from May 1995 he has been appointed the Director-General of the Premier's Department, New South Wales, and member of the Board of the Sydney Organising Committee for the Olympic Games.

Ken will be speaking to us today about his views on annual reporting and also in respect of public administration in New South Wales. Would you all please welcome Ken Baxter. Thank you.

MR KEN BAXTER (Director-General, Premier's Department): Mr Chairman, ladies and gentlemen, distinguished guests, you have some fortune today in that I am suffering from a cold and I am likely to be extremely brief. I can also say that there is great virtue in speaking at lunch time because those of you who might find this subject extremely dull have the privilege of going to sleep after having had an extraordinarily good lunch; and I will not be offended if any of you do.

I appreciate the opportunity to talk to you about this exciting and energetic subject of annual reporting because sometimes people find it notoriously dull and the only time I notice

that it excites any real energy is at the annual presentation of Annual Report awards when private companies and some government agencies seem to believe that the hand of God is bestowed upon them and gives them something akin to a papal blessing. Thereafter the annual report hides in the dust until the company goes bankrupt or the Minister of the Department is changed and somebody rescues it out of the files to beat the respective journalists who wrote favourably about the company over the head.

It seemed to me when talking about this subject there were two major schools of thought - those who see annual reports as a means to an end and those who actually see them as an end in themselves. The first seem to be a group which knows that there is a very clear linkage between the strategic and tactical plans, the budget forecasts, the financial accounts and its narrative which describes how an organisation or business performs and where the organisation ultimately sees itself going.

In this sort of environment the annual report is actually a very dynamic document from which the ordinary reader gains a clear picture about their organisational health. It can also be the basis for external commentators being able to intelligently, and hopefully with a modicum of accuracy, discuss the organisation's performance, its strengths and weaknesses and its future prospects. The annual report is a means to an important end and hopefully all the various participants who are drawn together in the final document will actually play a very positive role. This is the group where records of accountability, performance assessment and material information are actually relevant.

The second seem to be the group which sees the annual report as an end in itself. In some cases the report is assessed by its size and by its glossiness. In others, there is a lack of information, so that the public gains little or no useful views about the organisation. Can I say not only does that apply in cases such as annual reports but it also applies to prospectuses. For any of you who are sort of plain clerks like me who tried to read one of the prospectuses in relation to a recent insurance company action, you may find that you are sitting up all night reaching for a dictionary and some financial lexicon and certainly finding it very difficult to understand some of the basic principles.

This group often finds that conventional parts of the report such as the Chairman's letter to shareholders or the Director-General's letter to the Minister do not really come together with the Managing Director's or the Director-General's report and his narrative and the financial statements which are usually at the back of the report or a separate part of it and the auditor's report. Of times the focus is on things such as photographs, short-run good news or glossing over the most difficult issues which might face an organisation.

There is a subgroup of this class of report where it is completed as a chore and reports only those things which are formally required. It is notable for the number of pages of statistics showing that statutory requirements and guidelines have been met but it contributes really very little to a broader understanding about organisational health and future prospects.

It is often argued that there is a considerable distinction between annual reports prepared by the private sector and those prepared by government. I am not convinced that proposition is necessarily correct. The principles seem to me to be pretty much the same - the provision of relevant timely information and appropriate disclosure. In the private sector, the accountability relationship is between the board of the company and the shareholders. It is regulated by a whole legislative scheme of disclosures and reporting designed to give the ultimate owners a clear picture of what is being done to protect and advance the interests they have purchased in the company.

In the public sector the picture would seem to me to be pretty basically the same. There seems to be another layer interposed, depending upon whether one sees the government of the day as the stakeholders in public sector agencies or whether the ultimate 'shareholders' or 'stakeholders' are more properly seen as the community at large, I am disturbed from what I understand Bob Walker said this morning that a very small proportion of the community at large actually gets to read these reports.

Certainly some work which was done in Victoria on who actually read reports showed that a very small proportion of people outside the normal accountability process actually read the hordes of reports that were submitted to parliament.

It is possible to argue that there is a distinction, albeit blurred, when there are significant community service obligations between traditional government departments funded from consolidated revenue and dependent entirely upon it and government business enterprises - the latter being clearly driven by financial results.

The usual model is for the chief executive of agencies to report to their minister on the events and activities of the completed reporting period and the minister subsequently tables the report in parliament. This seems to suggest that parliament is the important area to which the chief executives really have to address their comments. It also seems to suggest that parliament rather than the individual minister is seen as the stakeholder, perhaps on part of the people.

This interpretation is given additional weight by the fact the Auditor-General is charged by parliament to report to it about the financial affairs of the organisation on compliance with statutory requirements and to qualify the accounts if there are statutory or accounting guideline breaches. He is also to report if there are breaches of broader prudential guidelines.

I raise this issue because one of the experiences I had in Victoria was that the Secretary of one of the departments was extremely honest about the health of the department to his Minister. In a three-page letter which he wrote to the Minister as the introduction to the report he not only criticised the management of the department but he also managed to criticise a fair few other people, including the Auditor-General in Victoria. Needless to say the report hit the front pages of "The Age" and it didn't elicit a very favourable response from the

minister, who took a very different view about what the Secretary's letter to the Minister should actually be. I have to say in the next annual report the letter said, "Dear Minister, I herewith enclose our annual report for such-and-such a period".

Now this would seem to me to suggest that people such as myself are often put in a difficult position as to whom initially we might be accountable to and how prepared our masters might be to have us express some very honest opinions about the state of our own organisations. This is not dissimilar to the private sector because I know one chief executive in one company in Melbourne who went to write a similar report, although somewhat more tempered by the Corporations Law, about the health of the company for which he worked and the chairman took great offence because what the letter said was that the chairman was virtually incompetent and played no useful part and should be replaced and in fact it affected the health of the company quite considerably. So there are these sort of balances that have to be taken into account.

A question which in my view is not adequately addressed is the degree to which a minister should actually be responsible for the annual report of his or her department. Some theorists have very pure answers in terms of strict ministerial accountability, and I can easily argue that proposition, but I am not sure that the reality is quite as simple as the theorists would have it. It is likely that in many cases the minister does not have detailed knowledge of the contents of the report and may not be conversant with much of the detail that lies behind it.

For example, if you took some of the large portfolios in New South Wales such as health, education or transport it is very easy to understand that the minister may not have the detailed knowledge of a lot of the systems, and a lot of the arrangements that go on, right down in the organisation. Hence I emphasise the importance of informative reporting which can assist to make the distinction between what the agency management should be held accountable for and what the minister should accept as his or her own responsibility.

Having done that, Chairman, I now feel a little freer to take advantage of my position as a luncheon speaker - and I notice that at least 50 per cent of the audience has already gone to sleep - to deal with some of the more controversial issues concerned with public sector annual reporting. There is one point I should like to make abundantly clear and that is that all components of the reporting process have high levels of accountability, not only the ministers and the chief executive but also all the other parts of it. It is very much a system of checks and balances in which every party has a balance of accountability and responsibility to ensure that the ultimate recipients of the information, although the vast majority may never read it, that is, the electors of New South Wales, are actually assured that they are getting good value for their taxpayer's dollar.

In its present form the system of accountability seems to me to be, or the system of annual reporting seems to be one of the best examples of bureaucratic incrementalism. What started as a simple conceptual framework designed to inform Parliament and the public in simple terms about the operations of agencies so that they could form a judgment about the

performance of those agencies has turned into largely a large degree of red tape in the very best traditions of "Yes Minister". What should be clear communications of outputs and outcomes for end users and statements of the resources used to achieve them are often something quite different which do not meet the objectives of relevance, materiality and timeliness.

This may occur for a number of reasons: Firstly, because the people preparing the report are insufficiently skilled in the art of straightforward communication. Some people may see that as a distinct advantage. Secondly, because much of the regime is designed not to communicate clearly but rather to meet requirements which are process rather than outcome oriented and, thirdly, because many of the public servants feel threatened by external influences and not prepared to stand by plain language and common sense.

Having returned recently to New South Wales from Victoria, my observation is that the position here is a little more adversarial and defensive than I would have thought although one of my colleagues reminded me that unlike the gentility of Victoria the Rum Corp rebellion is never far below the surface in this State. I think it is more likely that adversariality leads to unfriendly results and I suspect the great challenge for the future and for the people charged with reviewing and revising the system in New South Wales is to devise one which builds a constructive, responsible and accountable system of responsibility and accountability.

Ideally I would like to see a succinct, user friendly set of documents which explain what agencies do, for whom, how, and at what level of performance over the reporting period in question. My very strong view is that the performance audit system, which is extremely valuable, should systematically complement compliance audits and try to assist in what in most cases are general attempts to manage large organisations with diverse outcomes and limited resources and in many cases, particularly in a political system, with confused objectives.

My role is to give you a brief impression of how I see the context within which we all operate or are likely to operate over the next few years. As public servants tradition has been that we are anonymous, occasionally but rarely heard - or should I say occasionally seen but rarely heard, and when heard give such phrases such as, "No comment", "You will have to ask the Minister about that", "You may very well think that" or "I can't possibly comment". And they are well known phrases which, of course, some of us around this room know by heart, not because we actually use them but because like everyone else most of us spend a lot of time watching the hundredth repeat of "Yes Minister" and "The House of Cards".

Regrettably some of those episodes are horribly close to the truth. But as aficionados of those shows, you will recognise that they do present some keen insights and observations about the way we govern ourselves. Some of you may recall some of the Patrick Cook cartoons which were done years ago for R.I.P.A.A. One of those always sticks in my mind as it says - with a picture of a cardiganed civil servant handing a set of figures across - "Here are

the real figures and here are the tickets to Majorca".

One of my real concerns is that the notions of accountability and responsibility are not keeping pace with the change in technology. The speed with which the technologies associated with communication are developing and changing means that those concerned with accountability have to be better trained and have a far broader knowledge of the management information and organisational control systems.

I am seriously concerned that much of the work being done in accountability for the public sector is still in some way akin to some hat-shaded clerk trying to bear out the futures and derivatives transactions of Barings Bank. The rate of technological change and quite understandable difficulties in keeping pace with it probably means that a wide range of people associated with the preparation, audit and public consumption of annual reports are missing out on some of the key elements of an organisation's operations.

Mr Chairman, this is not to denigrate the services provided by the many hard working and dedicated people who over time have attempted to ensure that the public receives value for money. In the past they were simply representing the culture of their own time, adhering to the standard operating procedures and working within the limitations of the technologies available. I would also say that governments have been reluctant, regardless of whichever side of the political spectrum they are on, to spend considerable sums of money on training people in new management skills and technology.

A real concern is that the internationalisation of business and government and the lack of attention to adequately training and educating those who are responsible for accountability in the public sector means that we are not really focussing on the key issues which may be very difficult for governments.

It was true in the past that in order to create the necessary audit trail for example to satisfy the high standard of public accountability for the use of taxpayers' money there had to be a series of well defined paper records, collected and certified with corresponding accounting records to show that the proper authorisations had been given, in other words, that due process had been observed. These days there are a multitude of transactions which are done without a piece of paper being used. And while there is a great deal of modernised reporting and auditing techniques used to trace those systems, I suggest that all of us, not only one part of the system but all of us, are still quite away behind what is running ahead of us.

If I can give an example from Victoria of the sort of problem encountered - the Victorian Auditor-General, quite properly decided to do a performance audit of the government's privatisation program. He started examining the records and one of his staff who had recently looked into Internet decided to send a missive to what he thought was some of his colleagues in the UK asking for information about the Victorian asset sales and their privatisation program. This individual didn't understand Internet well enough and he actually managed to send it to every country in the world, every stockbroker and most financiers in New York and

London, including three of whom were involved in financing one of the bids for the recently sold electricity enterprise. Needless to say there was a series of inquiries back to Victoria asking what in the hell was going on.

One of the real difficulties - and the Auditor-General quite honestly addressed this issue - is how do you put into place the sort of system which enables you to adequately exercise control over what is a non paper exercise and what is basically a free-to-air computerised system. When we started to look into that it literally meant that the era of the written sheaf has gone, the opportunities that are now open from Internet from untraceable or largely untraceable communication are enormous.

The sort of problems that will face us as chief executives and which will face committees like the Public Accounts Committee and which will face the Auditor-General in trying to have adequate controls over some of these free-to-air systems are enormous. I respectfully suggest that all of us are quite a long way behind understanding the implications of the system of public accountability.

I would also say to you that the size and complexity of a number of our organisations such as Sydney Water or State Rail probably means that the systems operated by them could be more advanced than the capacities of the internal staff or the external monitoring agencies to adequately assess their performance. I think it would be very interesting to ask of all the chief executives, of whom I think there are only two or three around this room, how skilled they are for example in getting into their own organisation's computer systems and how much capacity they have got to understand what may well be going on somewhere down in the organisation, let alone asking whether the Minister has the capacity to do it.

Again, I say that not to denigrate the Minister's capacities but it raises the initial question which I raised with you - how far does the Minister's responsibility extend? It is my strong view that the advances in technology are placing enormous pressures on the traditional notions of compliance. My experience has been that unless pressured to do so, external agencies tend to shy away from technologically advanced compliance to what in some cases might be perceived as things which are of interest but not as material in terms of systems controls.

A consequence is that this can give rise to questions about governance and the role of the government and the public sector and that itself opens up some very interesting questions. In other words, how far can a government agency or the Public Accounts committee go for example into dealing with an organisation which operates or has influence on something like Internet? In my view accountability and responsibility to keep pace with changes in technology may require some radical changes in our approaches to annual reporting.

I think, firstly, there will be a need for greater incentive for annual reports to be relevant and readable. I suspect very few of the annual reports forwarded to parliament gather dust over the longer time. Secondly, a number of us who have responsible roles may have to

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examine how far we go, what we do and how we do it, and there will need to be a very close working relationship with the office of the Auditor-General on how we maintain the technological pace and yet make sure that people are satisfied that they are getting value for money for the taxpayers' dollar.

I think also we very urgently need to seriously examine how we provide the intellectual development and training to the people associated with the preparation of auditing and critiquing of annual reports to ensure that the Parliament and the public actually have a realistic assessment of the organisation's works and its capacity to meet the future challenges and that we do not wake up one morning to find we have the equivalent of a Barings Bank staring us in the face. Thank you.

MR RUMBLE: Thanks, Mr Baxter, for that most informative talk to us. Are there any questions?

MR WARRELL: You talk about advanced technology but surely the annual reports are intended for general users who can't be expected to be understanding of networks and other things? They have got to be expressed in understandable language. The people who access them have to be experts in these other things, agreed, but surely the essence has not really changed. What we need are accounting reports which are understandable by the supposed users of those reports and that provide useful information?

MR BAXTER: I don't disagree with that. In fact, that is what I thought I said, that we actually need relevant material and timely reports. The real question is, does the report accurately describe the real status of the organisation? Does it give the reader a very clear indication of what the future objectives of that organisation are and the targets it is attempting to achieve and the role it actually plays?

When the Barings issue arose and because I have a very long interest in this question of annual reporting. [In fact there are a few ex Commonwealth people here who may remember when Senator Peter Rae and a few of us trampled through Commonwealth statutory annual reporting nearly 20 years ago and were told that this was a useless exercise]. I picked up the Barings report, which is actually a very interesting glossy document which has a set of accounts attached at the back of it signed by an extraordinarily reputable firm of London accountants and assessed what it told me.

Now if I kept my naive sort of simple approach to life up, I would have believed at 30 June last year everything in Barings' cupboard was absolutely hunky dory. Now, we all know of course from subsequent events that wasn't correct and that they faced a disaster of enormous proportions.

My concern is that in many cases, managers, chief executives, auditors and Public Accounts Committees, really don't have an understanding of what is actually going on in some parts of organisations and in both the public and the private sector the

internationalisation of business is such and the complexity of transactions is often such that unless there is someone who has got a really good understanding of getting into those systems and knowing how they work and what the outcomes are that the documents that they see sitting in front of them may not, I don't say do not, may not accurately reflect the real position of the organisation.

The other view I have is - and this is a problem of accounting standards have with future intentions, and that is in many cases plans and objectives which are set down in longer-term planning documents may be looked at by management and the Auditor-General and will ultimately have an impact on that organisation's health but the narrative in the report fails to accurately describe the risks and challenges associated with some of those long-term plans.

If for example you had written about the Victorian SECV, which is the equivalent of Pacific Power, two or three years ago you would have thought that there was going to be absolutely no change in the electricity generating industry for the next ten or 15 years and that was for two reasons - one, because the management didn't want to accept that there was going to be change; and, two, because the Minister of the day, for philosophical reasons, didn't want a commentary in the narrative about the pressures of competition and the burden of the debt load that had been put on the SECV were likely to cause it to change.

Now they seem to me to be material factors which should be encompassed in an annual report and I think there are a series of things which all of us - and I am not getting stuck into anybody in particular - but all of us tend to gloss over in the annual report. I don't disagree with your fundamental proposition.

MR CHASE: Steve Chase - ABC. How are you going to ensure that public servants who write reports, write them in plain English??

MR BAXTER: Two things. Give them a copy of the Fort Street speller which was written by Mr Horan and is still extant; the second thing is to give them a volume of Gow's Plain English; and; thirdly; ensure that they don't read newspapers whose English is notoriously faulty. A fourth thing is to ensure this Government lives up to its promise of reintroducing excellence in education, particularly in grammar.

MR PORTER: Jonathan Porter, from the Australian. I am a former Fort Street boy.

MR BAXTER: I won't hold it against you.

MR PORTER: To what extent are you proposing to let Ministers off the hook with their responsibilities?

MR BAXTER: Look, can I be critical and with due respect, that is the sort of stupid question one might have expected from a Fort Street boy. It is not a case of letting a Minister

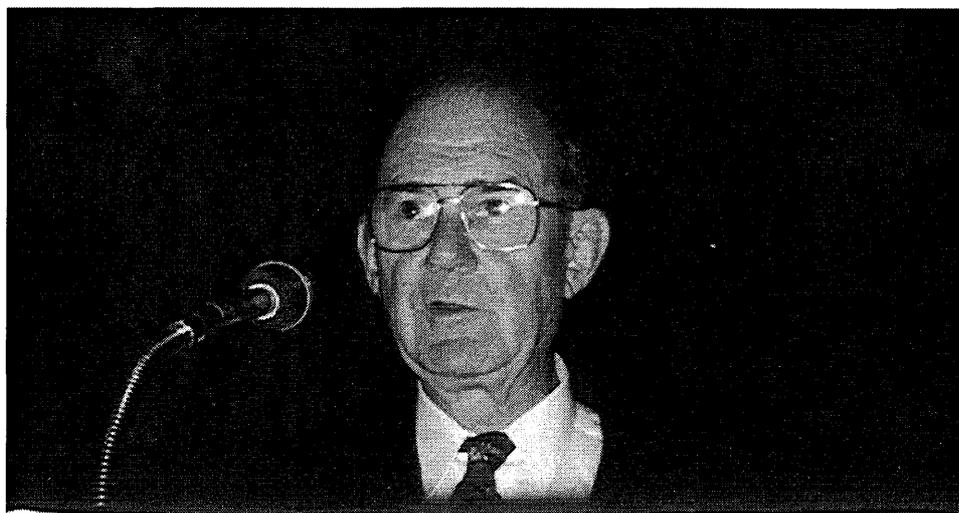
off his or her hook, it is a case of accurately understanding that particularly in the government trading enterprises area organisations have become extraordinarily large, extraordinarily complex and that day-to-day decisions are made which, if you attempted to ensure the Minister knew the details of every decision which was being made you would actually be replicating that "Yes Minister" episode where if you remember, Hacker was given the four red despatch boxes when he arrived with a pile of files to take home and read.

My view is that would be doing what bureaucrats are expected to do, swamp the Minister with detail which may not be relevant. Now what the Minister has to ensure, and to do it he has to talk to people like the Auditor-General, he has to talk to his departmental head and he has to satisfy himself or herself that first of all the statutory requirements have been met; secondly, that controls are in place and; thirdly, that there is a reasonable management information system. If you want to be critical of the public service, not only the public service but the private sector as well, because it runs right across the private sector, one of the things we have not developed particularly well in this country is our management information systems. If you ask a private sector or a public sector manager to give you the piece of paper or computer read out at the end of the week that sets out the key performance indicators in that organisation, I think you will find from both public companies and from the public sector very few are able to do it.

The sort of implication that arises out of your question is not helpful because I think that the majority of ministers are actually attempting to come to grips with this issue of how far does their responsibility go, how far are they accountable for a decision which might be made deep into an organisation, and particularly where there are very long lead times in capital investment programs. This applies to things such as electricity, water boards and railways, how far do you hold a minister accountable for a decision which may well have been made five or six years ago for capital investment which is not now the appropriate capital investment but which he can't terminate because there are contractual obligations which have implications for the whole of government?

Now it is very easy to be facile about this, and I mean this very seriously, but it comes to the point in my speech where I said that it does raise serious questions of governments and serious questions about where are the limits of government and the role government plays in some of these areas. It is not a position to be addressed lightly or, as I have also said in my speech, with any confrontationist point of view. There needs to be a very sensible working through to make sure that the Public Accounts Committee, the Estimates Committees and ultimately the public are satisfied that the organisation is being as well run as it possibly can be.

MR RUMBLE: Thanks, Mr Baxter, for your most informative talk to us today.



**Mr Ian Glachan MP,  
Committee Member**



**Mr Peter Gifford**  
**Director of Corruption Prevention, ICAC**

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## **Disclosure in reporting as a corruption prevention tool**

MR GLACHAN MP: Good afternoon, ladies and gentlemen, and welcome to this afternoon's session of our seminar. We have a number of very interesting speakers this afternoon. My name is Ian Glachan. I am a member of the Public Accounts Committee and I am the member for Albury in the New South Wales Parliament. It is my great pleasure to introduce the next speaker, Mr Peter Gifford, who, at one time, was the Acting Chairperson of the Albury/Wodonga development Corporation, so we are old friends.

Peter has had a number of very interesting positions in the past. He has been principal adviser on industrial relations policy; Administrator of Christmas Island; principal adviser to the Commonwealth Ombudsman's Office; Director of the Merit Protection and Review Agency; and Controller, Defence Aerospace in the Department of Defence. He has had a very varied career. Recently he has been the Director of Corruption Prevention at the ICAC, and he is now the Director of the Community and Prevention Services unit. That unit, of course, has a very important role to play. I know that Peter has some interesting things to talk to you about, particularly in regard to annual reports. I ask you to join me now in giving him a very warm welcome.

MR GIFFORD (Director, Community and Prevention Services, ICAC): Thanks, Ian. Barry O'Keefe would have liked to have been here, but at the moment he is slaving away investigating possible corruption in the Byron Council and those hearings are being held in freezing Ballina. Barry has recently done some restructuring of the commission. The education function, which is led by my colleague Yvonne Miles, who is in the audience today, and the corruption prevention functions have been brought together in a single organisation unit and I have the privilege to be leading that unit at the moment.

I am pleased to be here to talk about the use of annual reports as a tool for increasing the transparency of the operations of public sector agencies. The Commission believes that transparent processes are essential to establishing and maintaining a culture of integrity and accountability in any organisation. As I said, the new Commissioner is putting an increasing emphasis on the education and corruption prevention functions of the Commission.

One of our major publications this year will be a practical guide to corruption prevention, a handbook recommending approaches to corruption prevention work across the whole of an organisation or in specific risk areas. Michael Lambert talked this morning about the new legislation creating an overall framework for financial management and reporting and annual reporting. The Commission sees as part of its strategic orientation the role of assisting the public service to get that operating framework right and we see annual reporting as a key element in that framework.

The Committee's current inquiry into public sector annual reporting is timely for a couple of reasons, in my view. There is increasing pressure on government departments and statutory authorities to account for their activities and to provide appropriate services with a

minimum of public resources. This means that annual reports are, in my view, and perhaps should be in the view of some others, scrutinised much more critically.

The second reason that this area needs to be revisited was alluded to again by Michael Lambert; namely, the seeming proliferation of models of a public sector agency. For years, we have had departments and statutory authorities in the standard form, but now in this State and in other jurisdictions, there are many variations on the theme. Michael talked about the variety of forms of public authority and the way in which public business can be done.

Then, of course, an increasing number of government operations are being undertaken in a variety of ingenious ways with the involvement of the private sector. How do we provide a reporting framework which can allow for all of these permutations? This is the challenge, in our view, facing the Treasury and all of us as the legislation is rewritten.

I turn now to present some thoughts to you from the Commission's view on annual reports. Our interest springs from our role. As you know, our role is to expose and minimise corruption in the New South Wales public sector. We use the annual reports of government agencies and of local councils as a base reference tool in our investigation, corruption prevention and education work.

Most reports are useful for providing a broad outline of organisational structure and functions. They also tell us, either through what they say or sometimes what they do not say, about the commitment of the organisation to being truly accountable. Do we read the whole story or just the good news? We did some work last year to look at the impact of, and what action had been taken on, the systemic recommendations that had been made in the investigation reports of the Commission. You will recall that the most frequently reported outcome of the Commission's investigation work is who has been corrupt, who should be sent to gaol, who should be disciplined by his or her organisation. But in most of our investigation reports, there have also been attempts to identify areas in which systems should be improved, policies changed or even the law amended.

We undertook to do this study and followed up on it, firstly, by looking through annual reports. In the case of one particular report, there was a recommendation, because corruption had clearly occurred, that the department involved should introduce a policy in a particular area where it had no policy before. The annual report that followed our report indicated to us that the department had put out such a policy. Just for the sake of completing the record, we asked the department to send us a copy of that policy and the response was fairly slow incoming. When we followed it up, we were told, "Well, we have looked back and actually, the last draft is on the file still." But no policy had been issued.

In our view, the general quality of annual reports appears to be improving although a number of organisations still seem to see their reports, as a number of our speakers have said this morning, primarily as a public relations tool rather than as a public accountability mechanism.

Annual reports give the parliament and the community an opportunity to examine the range of activities of each department and authority. They also form an important part of the historical record of government and are basic sources of information for a wide range of people with varying interests. Their major purpose, in our view, should be to provide parliament and the community with a tool to ensure that public sector agencies account for their performance. That performance is measured against a well understood set of objectives. The community wants to know that it is getting value and appropriate services for its tax dollars.

The introduction of a managerial approach, a focus on program management, program structure, etcetera, means that agencies should now be in a position to report within a very clearly defined framework of objectives, outcomes, and against well-understood and meaningful performance indicators.

I will follow the Treasurer's example before I talk about what the Commission had to say to the inquiry just to remind you that our 1994 annual report was cited in the Committee's discussion paper as being the cheapest annual report produced that year. I don't think we have quite got the costs down to where we can meet Paddy McGuinness's desire to have 91 reports available for a total of \$25, but I think the cost was \$4-odd. We do try to keep costs down with all of our publications, which are available free to anyone that seeks them. Cheap does not necessarily mean nasty; we did not do quite as well as OSR but we got a prize in the annual reports competition for that year.

I turn now to the Commission's submission to the inquiry. We emphasised some measures which could be taken to improve accountability while fostering an ethical public sector culture. The Commission is concerned that the Committee has detected inadequate compliance with the requirement to disclose controlled entities and presumably the financial statements of those entities.

The Parliament and the community need to be confident that all activities of government bodies are being reported on, including those carried out jointly with or contracted to the private sector. The Commission has suggested that agencies be required to reproduce in their annual reports brief contract summaries or projects in which the private sector is involved in public sector infrastructure. Imitation is the sincerest form of flattery. I am sure that matches precisely one of your Committee's recommendations, members of the PAC.

Where the contract summary is too long to reproduce in full or where a number of such contracts had been signed in the reporting year, the annual report should list the contract summaries and indicate their public availability. It is essential that the public perceive that no government activity is hidden from public view.

We are also concerned about major problems and issues. Are they being adequately reported?

Government agencies need to address the hard issues such as administrative failures and policy problems and how they were dealt with as well as the issues for which they may get some praise. Cross-checking reports' contents with the Ombudsman's, the Auditor-General's and the ICAC's annual reports should be done routinely as part of the review process to reveal agencies' disclosures of breakdowns in systems and procedures and what they have done about fixing those breakdowns.

On the question of how prescriptive the annual reporting requirements should be, I think I am going to depart from that which Michael Lambert foreshadowed this morning. The Commission has not yet been convinced that we should move away from a detailed approach towards what the Committee describes as "broad terms with statements of principle". Perhaps Michael would catch what I am going to suggest in his statements of best practice or perhaps in the detail in the regulations, but with the known current level of non-compliance with existing and not unreasonable requirements, it would appear unwise to relax those standards. At this stage presentational features need not be prescribed other than, importantly, the broad requirements of clarity and succinctness.

The annual report awards criteria will undoubtedly continue to provide impetus to improvements in presentation and the Commission supports the adoption of a plain English approach.

What else should agencies be reporting on? We have identified a number of issues which we suggest would improve the quality of annual reporting and their contribution to accountability. None should increase the administrative burden on agencies because the information suggested should be readily to hand. Each would add weight to the claim that the New South Wales public sector is serious about eliminating corrupt behaviour.

We would like to see the following issues covered in annual reports: Corruption prevention strategies; implementation of ICAC recommendations; related party disclosure; sponsorship arrangements; better FOI data; and actions to implement the Protected Disclosures Act. In light of the time, I will not take you through each of those in detail. Let me just pick one or two.

If, in their 1990 annual reports, the departments and agencies in this State had included the details of their then current corruption prevention strategies, all of you could have read all that they were then doing about that subject in a minute and a half. It would be a different story now. Documentation of cases of corrupt conduct detected and the steps taken to deal with them would illustrate agencies' anti-corruption stance and enhance their efforts to maintain ethical organisation cultures. Most agencies are acting on the guidelines issued by the former OPM and worked up by the Auditor-General and his colleagues showing the development of fraud control strategies throughout the New South Wales public sector. Follow-up action on ICAC recommendations, we think, is worthy of inclusion. As I said earlier, we usually recommend improvements to the agencies' administrative or operating systems in the context of reporting on allegations or reports of corruption.

In the area of sponsorship, we issued some principles about 18 months ago. We have recently reviewed them and will shortly issue a slightly revised version. It seems to us important that details of the benefits flowing to the community, benefits flowing to the organisation, and benefits flowing to the sponsor should be detailed in organisations' annual reports.

Our final suggestion related to including information about the implementation of the Protected Disclosures Act, which you know is implemented with effect from 1 March this year. This Act provides another opportunity for agencies to increase their awareness of corruption, maladministration and waste in their operations and then take positive action to eliminate any problems.

The Commission is currently looking at the feasibility of doing some research into the implementation of that Act by government agencies. We are working in conjunction with the other two major regulatory bodies, the Audit Office and the Ombudsman's Office, and we hope to look at any problems in the administration of that Act in the attitudes of management and employees' knowledge of and attitudes towards the mechanisms in place. We want to find out how successful it has been as a management tool, how people making disclosures have experienced their promised new protection. We would hope, when our study goes ahead, to use the information flowing from it to feed into the review process which is required by the legislation.

I turn now to the question of compliance and how to achieve best practice in annual reporting. The PAC has asked whether existing mechanisms for reviewing reports are adequate to ensure that agencies are telling us enough. I have suggested some areas where additional information should be included, but we endorse the current practice of the Audit Office on behalf of the Treasury, and more broadly on behalf of parliament, in reviewing the reports of all major departments and statutory authorities together with a selection of the remainder each year. This appears to be an effective mechanism for highlighting inadequate compliance with reporting requirements. The follow-up measures, with the ultimate sanction for failure to correct previous non-compliance being the further reporting of the matter to parliament, should be sufficient as an enforcement mechanism, provided parliament accepts its responsibilities in that regard. We should not lose sight of the interests of the pre-eminent stakeholder in the annual report process - the Parliament. The Treasurer mentioned this morning the newly established Public Bodies Review Committee and we see that as a useful mechanism to increase Parliament's formal scrutiny of annual reports.

In our view, comprehensive analysis of those reports by the Committee will have two major benefits. First, it will allow the compilation and analysis of information in reports in a form which could make that information more accessible and useable by the Parliament and individual members and the community. Secondly, it will provide another level of monitoring of the effectiveness of annual reports, further encouraging compliance with the requirements.

On a technological note, which was picked up by Ken Baxter, the Commission suggested to the PAC that thought might be given to encouraging agencies to look at the use of supplementary formats to hard copy for the presentation of their annual reports. They would be rave sellers on the Internet, but you do not have to pay, do you? I am not suggesting at this stage that departments are rushing to set off on the information superhighway, but we should be seriously looking into such things as CD-ROM, floppy disk or on-line formats. Any of these could provide easy access to report users and would allow extraction analysis of data, particularly statistical data. I expect that Alison Crook, who is to speak to us later this afternoon, will have more to say about the costs and benefits of current methods of producing annual reports. Her ideas on harnessing technology to provide a wide range of government information as a standard service outside the annual reporting process should be examined seriously by all those public sector managers who are serious about improving responsiveness and accountability.

I would like to conclude by emphasising that succinct and clear reporting of activities and discussion of issues is essential to ensure that annual reports fulfil their purpose. The report is the main opportunity each year for agencies to demonstrate the transparency of their operations. It is their opportunity to describe the measures that they have taken to promote integrity among their staff in all of their dealings with their clients and suppliers and finally with the community. Public sector managers should see their annual report not as a dreary bureaucratic task that some poor junior person has to organise each year but as a key means of being truly accountable to the parliamentarian, the public of New South Wales, thank you.

MR GLACHAN: Thank you very much, Peter. Prevention of corruption is an important topic. Do we have any questions for Mr Gifford?

MR PARSONS (Premier's Department): You made a comment that the reports were improving. What benchmark have you used on that? Is that the ICAC benchmark or is it the Treasury benchmark?

MR GIFFORD: It is an ICAC benchmark and I guess that, as we see agencies picking up their responsibilities, showing a better understanding and a willingness to commit effort and resources towards raising corruption prevention, raising fraud control on their agenda, it seemed to us, as I said, that the basic theme was that this demonstration of their accountability is enhanced because that work is being done and it is being reported on an annual basis.

MR PARSONS: You mentioned that the reporting on FOI could be improved. What do you have in mind there?

MR GIFFORD: My understanding is that there is at the moment no standardised format for reporting on FOI and this makes it, I think, difficult to get a common picture across. I may be in error there.

MR PARSONS: I don't think that's right; in fact there are a number of reporting requirements under FOI, six monthly summaries of affairs and a twelve monthly statement of affairs, which are pretty prescriptive.

MR GIFFORD: Do we have a fairly common picture emerging in the annual reports that gives a clear indication of how this is being applied throughout the sector? It may be that I need further advice, but it seemed to me that there may be an advantage if, through annual reports, there is a common and consistent approach.

MR PARSONS: Some departments choose to put a statement of affairs in a separate publication rather than an annual report. It may be an idea that should be included in an annual report, but there is a fairly prescriptive approach to it.

MR GIFFORD: Good, thank you.

DR T SMYTH (Hunter Area Health Services): I wish to make more of a comment just on the FOI matter. In the four years, that I have been head of the Hunter Area Health Services, no-one has ever asked for particulars or a statement of affairs for Hunter Area Health Services.

MR GLACHAN: Thank you very much. Would you please join me in thanking Peter Gifford.



**Mr Tony Harris**  
**NSW Auditor-General**

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## **Reporting on performance - financial and non-financial information**

MR GLACHAN: Our next speaker is the Auditor-General of New South Wales, Mr Tony Harris. Mr Harris has had a wide and varied career. He graduated from university with the degrees of Bachelor of Arts and Bachelor of Economics. He holds a Master of Business Administration degree from the University of Southern California.

Mr Harris's working career began as a teacher at St Thomas's School here in Lewisham in New South Wales. He then worked in the Department of Trade and Industry in Canberra and the Department of the Treasury and the Department of Finance. He was appointed as a fiscal expert in the International Monetary Fund. He was Deputy-Secretary in the Department of Immigration Local Government and Ethnic Affairs and a Commissioner and Acting Chairman of the Industry Commission. Most recently, he was Chief of staff in the Treasurer's office in Canberra. In 1992 he became the Auditor-General of New South Wales. He has a strong personal commitment to integrity and accountability and I know that you will be very interested in his address. He will speak to us today on reporting on performance - financial and non-financial information. I ask you to join me in welcoming him.

MR HARRIS (NSW Auditor-General): Thank you, Ian, and thank you, ladies and gentlemen. I will not read my speech, but I wanted to say a few things that I have said in the paper. On reading it recently, there is one thing that I have not said that I would like to say at the outset and that concerns a view about an excess of accountability. It has been put by a good friend of mine, the former Director-General of the Premier's Department, that with the ICAC, the Ombudsman, the Auditor-General, select committees, standing committees, the PAC, question time, journalists, annual reports, ministerial correspondence, there is a superabundance of accountability - in this State, and that to add to it is merely to take away the essential core work of an agency.

That is not a proposition that should be discarded without some thought; at the same time, I would like to put the view that, where governments are concerned, the kind of accountability that you get in the private sector is not there. I have said before that the accountability of a client of a private sector business is that the client will leave if the private sector does not provide the level of service, quality of goods or price that is expected. Clients will vote with their feet. They do not have to read annual reports. They do not have to read committee reports. They do not have to read the share price; they just leave.

When we have a public service that enables and empowers the consumer such that the consumer does not have to deal with government agencies, but the consumer can satisfy his needs and wants from other agencies, then I think we will have an adequate accountability system. In the absence of that, we have to think very carefully about whether we have sufficient accountability.

The second point I would like to make is that even with all of those instruments that I spoke about, of the 480 agencies that I audit annually, very few of them would get any serious attention through those accountability processes apart from the annual report; and, pity, the annual report does not give enough either.

Thus question time, as important as it is, cannot be really effective if the Parliament sits 16 days in 9 months. Even if it did sit rather longer, the kinds of questions affecting agencies will be reasonably specific. They will not provide an overview of an agency's operations. That is true for most select committees that are established. They are established to look at a particular issue; whether it be superannuation, whether it be protective disclosures; they look at a particular issue. They rarely look at the whole agency. If they do look at the whole agency, that is only done rarely too; it is not done annually.

So the annual report really is the only source where you get an authoritative - it is authoritative because the CEO of the agency, the chairman of the board signs it; timely - it is timely at the moment - comprehensive - that is the promise, a comprehensive review of the year's past - idea of what an agency is meant to do and what it does. My argument is that the annual report is a crucial element in the accountability process.

The second thing I try to address in my paper is really an aside. It is an aside in some senses because it does not affect all agencies represented here today, but it does affect statutory authorities.

Statutory authorities are not creatures of the government. Statutory authorities, unlike departments, are established by parliament to do certain things that parliament has asked them to do; accordingly, they have a particular reporting obligation to parliament.

Now, in most statutory legislation in New South Wales, the minister has a role also in directing the agency. The difficulty for me, as an even interested observer let alone a casual observer, is that I cannot tell when an agency is acting in its own right and when an agency is acting because it has been directed to act. I have a better insight than most of you into most agencies because I see the minutes of the board, and they will say things like, "We do not wish to do this, but we are legally bound because we have a direction from the minister," so they do legally what the minister directs them to do. I have no quarrel with that. The difficulty is that not very many people know when the agency is acting on its own motion and is thus accountable itself for what it does or when an agency is acting because it has been directed by the minister, in which case the minister is directing; the minister is accountable for those directions.

This Government introduced in the SOC Act - the statutory corporations legislation - a requirement that ministerial directions to those corporations be gazetted. Parliament accepted the Government's proposal. I think that is a move we should applaud. We should also require that other agencies, not departments, but other statutory authorities not bound by this

requirement, put in their annual report when they are acting under their own motion and when they are acting under direction.

I distinguish the statutory authorities from departments because departments are part of government, constitutionally indistinguishable from government and therefore everything they do ought, in one way or the other, be at the direction of the minister. We are starting to say to one very large agency, "Look, I want you, this year, to put in your annual report all of the directions that you got from the minister in the last fiscal year. If you do not, I will. I will put it in my annual report," so that we can test the degree of accountability that is evident or not evident, because in no annual report that I reviewed for the purpose of this paper did I see one ministerial direction reported; yet I am confident, having access to the minutes, that there were many.

The second thing I would like to say is something that you have already heard of ad nauseam today; that is, if you read annual reports, you do not understand the issues facing an agency. In the main annual reports in this jurisdiction are weak. I came to this conclusion by looking at a reasonable number of annual reports that were to hand. You cannot accuse me of picking on all agencies cited here. For most agencies discussed here, someone gave me a bundle of annual reports and I just went through them. In doing so, I tried to look at things that the reasonable person - am I reasonable; I don't know - might expect to see in an annual report.

With Corrective Services, I thought there might go be some comments on recidivism in its report; that is, the propensity for a convicted person to be reconvicted. One would have thought, in a gaol system, that would be one of the goals; namely, to use the incarceration period so that the prospects of recidivism would be reduced. I do not think the word was mentioned in the annual report, let alone the concept.

I thought that the Corrective Services' report would say something about escapees and indeed it does. It talks about the need to enhance their correctional security systems to make them more effective. If you looked at the appendix 22 at the back of the annual report, in fact, you would see that they had a very significant jump in escapees in the year under examination, which they did not report in the text. So they reported the concept about how desirable it was to enhance the security system, but they did not actually report these outcomes.

Similarly, they spoke at length about Aboriginal deaths in custody and the Royal Commission's results and how they were implementing them. They spoke of the Waller committee's review of suicide and self-harm, but they did not report on the fact that suicide and murders in centres increased from 6 in one year, the previous year, to 14 in the year in question; there being three murders in the year in question and none before. So it had the goal, but it did not relate it to the outcome of the output and gave one no idea of the size of the problem. In fact, they did not mention Aboriginal deaths in custody at all,

notwithstanding the 25 per cent of the inmates, in numbers, as I understand it, are Aboriginals.

Similarly, with regard to the University of Sydney, I looked at that annual report for 1994. The Vice-Chancellor's overview did mention the quality assurance program introduced by the Commonwealth to identify the quality of universities and courses. The report talks about the quality assurance program, but it does not tell one what the results are. It talks about some TER statistics for some faculties but it does not give any overall picture as to whether or not the university's TER score is higher or lower than the previous year or how is it rating compared to other universities, and that is a comparative benchmark indicator that might have been useful.

I enjoyed reading the annual report of the Art Gallery of New South Wales and I read in the then minister's statements that the number of visitors went up; however, there was no cause given. There was no discussion on the cause, and there was certainly no discussion about the fact that visitor numbers had not reached the levels that they had matched a couple of years before. The director expressed some pleasure that the gallery was reorienting itself away from exhibitions using borrowed material towards exhibiting its own collection, but gave no reasonable indication of what was happening with the Art Gallery's own collection, and it has as an important mission statement that it have a good collection in some senses of the words.

The State Rail Authority's report for 1994 did not tell me how much City Rail lost even in cash terms. It did not tell me how much Freight Rail lost in accrual terms. It did not tell me what was happening to Country Link, although it did note that there was a deterioration in passenger kilometres achieved in spite of - it did not say this - a very significant and ambitious investment in Country Rail.

The 1992-93 report of the Department of Health - I am told that the later one is better - did not provide good information on the achievement of its mission, namely, to improve the health of the people of New South Wales. There were no figures on longevity, no indications about quality of life. It did, though, if you read it very carefully, indicate some of the problems that they were facing, such as an ageing population and mental health problems, but it was done in a way that was so oblique as to be opaque, so subtle as to be almost missed, lest, I suppose, journalists actually use the information.

The 1993-94 report of the Department of Community Services shows the very strong growth in the number of allegations on child abuse, very strong, very substantial growth, but it tells you nothing about how the department is meeting that challenge and what the outcome is of those notifications. In other words, it tells you the problem but gives you no feeling for whether the department is doing anything about it. It did the same with homeless people and people with disability.

State Transit's annual report gives you lots of information - it is a well run organisation - but not in a way that is immediately useable. You have to craft your own information. You have to do your own mathematical calculations to determine, for example, that the subsidy received by its ferry passengers in Sydney averages \$2 a head. I wonder why we have to work that out. I wonder why they would not tell us that a bus subsidy in Newcastle is \$1.60 a passenger but that it is 65 cents in Sydney. They will not tell us that, but we can work it out. They will not tell us that the introduction of River Cats increased the losses on ferries. They will tell us that it increased expenditure - well, you knew that. They increased revenue - you knew that too. They did not tell you that they had increased losses.

Perhaps those are eclectic observations, but to the extent that they represent a random sample, I can suggest that annual reports do not satisfactorily address the major issues raised by agencies.

Then we had a look at a sequential story on one issue - and when I drafted this speech it was not quite as sensitive as it is now - and that related to corruption in the police force. We looked at ten years of annual reports to see what is the story of corruption as we know it and understand it, and what is the story of corruption as it portrayed in the Police Service annual reports? As you would expect, they are not the same.

We understand from other sources that corruption went right up to the Commissioner's office and beyond into politics. You will get some glimpse of that from a report in 1984/85 but not thereafter. We know from other authoritative sources that the Police Service believes that it has, thankfully, eliminated the problem that I enunciated earlier. But if you read the annual report you will get, maybe once, the views on the mechanisms that they are using to reduce corruption, but you get no feel for the effectiveness of those mechanisms over time. So when we have a studied attention to corruption in one year, 1984-85, you will see nothing for a couple of years later, as if the annual report is not a picture of a continuous period, as if it is an annual story told by different story makers with different ideas on what to discuss.

In short, the annual reports for the Police Service show two diverging reports. One gives you a glimpse of the problem; one gives you a glimpse of the mechanisms used to reduce the problem and the rest is relative silence. You do not get the picture that you might get, for example, from reading the Sydney Morning Herald which, over the same period, made three references a week to police and corruption. You will not get the view that the ICAC reported many times on corruption in the Police Service. The Ombudsman also reported. The ICAC conducted 11 investigations; the Ombudsman 47 investigations; and there have been eight Commonwealth and New South Wales Royal Commissions that have touched on corruption in the police services in this State over that period - 47 Ombudsman investigations, 8 Royal Commissions and 11 investigations by the ICAC and you do not see that picture in the annual reports of the Police Service to the extent that you should see it, in my view.

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So I have come to the same conclusion that others have come to; namely, that annual reports are seen - and you have heard the phrase, Peter Gifford has used it, and others have used it - mainly for public relations not for public accountability.

We also looked at two reports over time. We looked at what happened in the early 1980s with the New South Wales Department of Corrective Services compared with 1994 and what happened to Sydney Electricity in the early 1980s compared with 1994. Understandably the Department of Corrective Services' financial information improved dramatically. There was no accrual accounting; now there is. There were no audit reports; now there are.

Similarly Sydney Electricity's financial data improved somewhat because it became subject to the normal accounting standards rather than to the Gas and Electricity Act of 1938. So now you can compare Sydney Electricity's financial data with its peers elsewhere, with its counterparts and its competitors.

But when you look at non-financial information for Corrective Services, which we have in part, you will see that there has not been the kind of improvement that may have been expected.

Why do I say it may have been expected? It is because this Committee, the PAC, put out a report in 1983 - by the way, the seventh report it put out since 1902 - that talked at length about annual reports. The current Treasurer was the Chairman. The former Treasurer was a member. It is a very good report. I think it had the heart and soul of the parliamentarians into it. They said in the early 1980s that:

Most annual reports are next to useless; Annual reports are late; Annual reports use inconsistent accounting treatment; Annual reports fail to disclose important information about agencies' objectives and achievements.

We can change that summary a little, I think, most annual reports are not late now. Most annual reports use consistent accounting treatment. But I would still say, I think - and the PAC can come to its own judgment - that most annual reports are next to useless because they still fail to disclose important information about their objectives and achievements.

The Committee, in its report in 1983, talked about an issue that it was not going to address at the time, but it did say at chapter 9:

There is no way of judging the efficiency and effectiveness of an authority without the development and use of performance indicators.

However, it did not take it any further than that. Indeed, in a debate in the House, this was seen by some as a weakness. Mr Collins, then in opposition noted that:

... overall and with only rare exception, annual reports provide scant information and avoid the real and often daunting problems confronting the State.

He went on to say:

*The end product is a range of glossy but essentially empty publications ...*

He also said of the agencies that:

*Bringing their activities under close scrutiny - let alone control - will take some years to achieve. And Mr Neilly now the chairman of the committee looking at public authorities and reporting, as a Government member of the Parliament at that time, said:*

*No stringent performance indicators are required ... Time will tell how reports prepared in the future might be useful.*

And Mr Smiles, also a member of the Opposition, suggested the same thing. He said:

*the Treasurer has missed the opportunity to include ... indicators of efficiency and effectiveness that should be included in such legislation -*

and he was referring to annual reports.

Section 11 of the Public Finance and Audit Act provides an obligation on heads of departments and authorities to have sound practices for the efficient, effective and economical management of functions. So managers have to have sound practices for the efficient effective and economical management of functions. To me that means you have to know whether they are effective, efficient or economical in the first place. If you do not know that, you do not know whether your practices are sound or unsound. To do that you should develop indicators and those indicators ought usefully be published.

So the paper concludes by saying that we have part of the legislative requirement for indicators. We have, at least in the Parliament of 1983 and 1985, a desire that agencies be publicly accountable through performance indicators. Perhaps the single most important advance in accountability that we can advocate at the moment is that relevant and accurate performance indicators are included in annual reports.

Maybe, like New Zealand, like Western Australia -and like Sweden, I am told by this is discussed in Professor James Guthrie's paper - the Auditor-General could be asked to review or audit the adequacy and the relevance of these indicators. That is a theme that you might have heard Mr Baxter speak about in brief at lunchtime. It is a theme that Professor Walker spoke about earlier today. It is theme that James Guthrie spoke about earlier today. It is a

theme against which the Treasury spoke about today and it is one that I speak for this afternoon.

I will leave those thoughts with you. Thank you very much.

MR GLACHAN: Thank you, Mr Harris. I am sure there are a lot of people who have questions to ask and maybe some statements to make.

MR MICHAEL MOBBS (Consultant - private sector): Firstly, I have a question and then I wish to make a brief observation. What are some incentives you can give to the public sector to tell the truth about failure?

My observation concerns the amendment to the SOC Act, which I actually suggested, and I am delighted to see the Treasury and the Premier embrace. The real problem, it seems to me, is even if you get effective performance measures, how do you give the public sector permission to be open about failure to get there? It seems to me that the failure to get there is not important and somehow people have to feel comfortable with disclosing that.

MR HARRIS: Thank you. In Western Australia, the Auditor-General says that the obligation that he has to make an audit opinion on the relevance and accuracy of performance indicators has led to a measurable improvement, over time, in agencies' performance indicators. If they do not improve, they will keep on getting a public, qualified opinion. That mechanism is a requirement of parliament, of course, because parliament has imposed the responsibility upon the Auditor-General and on agencies that takes it somewhat out of the Government's hands, and that obligation may be as effective in performance areas as a similar obligation as it currently exists is with financial information.

DR SMYTH (Hunter Valley Area Health Service): To follow up, I am not sure the first part of the question was really answered. While I would agree with that requirement that the Auditor-General reviews the performance indicators as a form of a measure of the public sector's reports in Western Australia, I think the psychology would still be that is actually a stick not a carrot. I think the question was about incentives.

MR HARRIS: I suppose I did not answer because I do not know. I do remember saying to one audit client one day, "Look, I am sorry I have to make this technical qualification on your financial statements." The officer said, "It may be technical to you, but it is a bonus to me; I have just lost a bonus by having a qualified statement." Maybe that is the incentive; that you do not have a qualified statement is both the stick and the carrot. I do not know.

MS M CHRISTOPHER (Police Board): Going on from what you said about looking for measures or elements or comments on corruption in the Police Service annual report, brings me to an issue that I have been grappling with for some time; namely, the non cross-referencing of annual reports where there are linkages between other annual reports. There are about three that I have in mind that address the corruption issue.

From 1984 the Police Board was established. It did not exist before the Lusher recommendations we remade. You will find a lot of narrative and description in the Board's annual reports about corruption and professional responsibility, which should be cross-referenced with the Police Services' annual reports. There was statistical information in the Police Internal Affairs' annual reports. That too should be cross-referenced with the Ombudsman's annual reports, not with statistics about corruption, but about their internal complaints. This highlights the issue of cross-referencing where there is that sort of overlap in who reports on what.

MR HARRIS: Let me take that a bit further. The paper actually says that one of the outcomes, a happy outcome, of the Police Service's report and the view that systemic corruption was eliminated is that we have a Royal Commission, because there were enough people in the community who disagreed with that implicit finding to cause a Royal Commission to be established. In other words, the annual report of the Police Service in not emphasising corruption gave some comfort to the view expressed by senior police management that they have got rid of intrinsic systemic corruption which enabled another process to be established; so, in that sense, the annual report system worked. I was not actually talking about that so much; I was talking about the Police Commissioners making comments which were not replicated in their annual reports. That is the point I think that I was trying to make.

MS RUTLEDGE (Department of Housing): You made the comment that on reading the annual reports, it looks as though they are written by different story makers telling different stories. Of course, that is the reality, isn't it; they are written by different story makers over time. They are written in the name of different chief executives and different people writing on their behalf, and some of them, history tells us, were themselves corrupt - so that is the reality. I wonder if you could comment on how we then link this chain of accountability to that other chain of accountability in terms of chief executive performance agreements linked to ministers, codes of conduct and linking to the parliament. It seems to me there is another chain there that we need to somehow hook into the process.

MR HARRIS: Can I say, Pamela, that I think you are right, but not being a member of the executive, I stopped earlier. No, that is not true; I actually did not contemplate that issue. You are right. In our organisation, of course, we do not do that; the storyteller is the same, at least for the length of appointment of the person. But it is true that when anew person comes in, there is a new story. That person, should, however, go back a few years.

MS RUTLEDGE: I agree, yes.

MR HARRIS: That person should try to see what the issue were and finish the story, finish the closed chapters. It is a hard thing for me to say how you would ensure that is done.

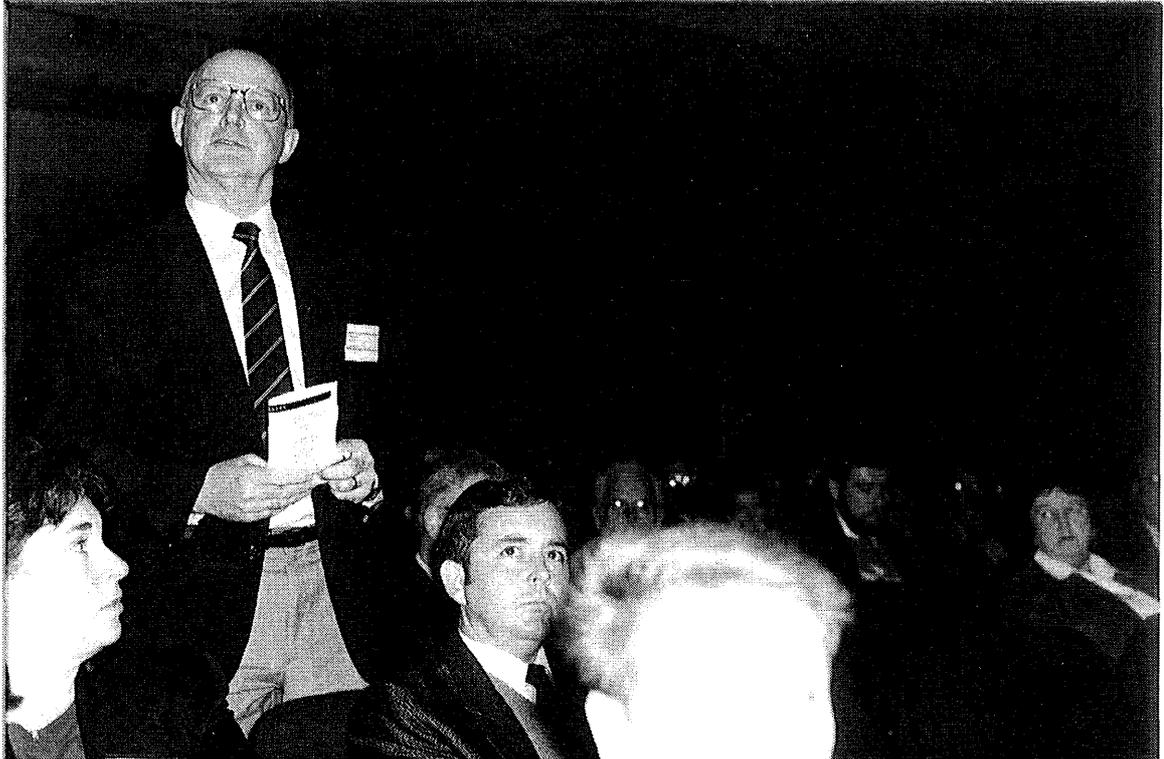
MS RUTLEDGE: I think performance indicators is one of the mechanisms.

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MR HARRIS: Again, in a financial audit you have last year's data, the comparative data. You can say, "This is what you said last year, this is what has happened in the year between." So you have an opening and closing book. Similarly with performance indicators, you have an opening and closing book. You can make the story continuous over five years, as some people suggest. As I inherited my predecessor's statistics for five years, I used four years in my first report. There is nothing wrong with that.

MR GLACHAN: Thank you very much, Mr Harris.





**Ms Alison Crook**  
**Director-General, Department of State Development**

## **Annual Reports - a critical view**

MR GLACHAN: Our next speaker will deal with the topic, "Annual Reports - a critical view". Ms Alison Crook is Director-General of the Department of State Development. Ms Crook was formerly State Librarian from 1987 to 1994. She was made an Officer in the Order of Australia in 1993 for services to public administration, and she won the award in 1993 of Bulletin/Qantas Business Woman of the Year.

Her special areas of interest in the management field are organisational change, strategic planning, the applications of information technology and the effective delivery of services. She has come to speak to us today even though she is not well, and I want you now to show how very much you appreciate her coming from her sick bed to speak to us. It was a great effort, but she has valiantly come along. I ask you to give her a very warm welcome.

MS CROOK (Director-General, Department of State Development): I will endeavour to keep it brief, which will help you to keep on track with your timetable and help me with my flu. This is very much a personal view that I put forward. It certainly does not represent the views of any element of Government, or even my own department. I would like to play the devil's advocate a little.

I certainly agree wholeheartedly that in the interests of accountability, we must have a reporting mechanism of some sort which allows for evaluation of departmental performance and allows for public access to that evaluation. However, I suggest that we are now reaching an era when the cost benefit of the method that we are using to report and be accountable to the Parliament, the people's representatives, and to the people themselves, might be questioned.

Each year, across Australia, hundreds of thousands of hours are spent by staff at varying levels within Government bodies, hundreds of thousands of pages printed and millions of dollars spent on producing annual reports. How many of them are read and at what level of detail? We know that the media scans them searching for departmental blunders or extravagance - but not very closely. Importantly, Public Accounts Committees at Federal and State levels read them, but does anyone else?

I suggest that most politicians would give them a wide berth unless questions were being asked in the House or by the media. Libraries collect them. They request them politely; they demand them, and then they store them. The public rarely, if ever, asks for them. Individuals applying for jobs are often provided with them. Occasionally, auditors from other States or organisations carrying out reviews or trying to establish benchmarks seek them. The odd historian uses them. But in fact, they are not very useful for many of the purposes for which those various people have requested them, for the very reasons that you have heard from everybody else all day.

There was, of course, the era when some of us tried to use them as marketing tools. They were used as PR tools for public relations, for sponsors and soon. They were developed in full colour with lots of photographs. But as each year has passed, more and more requirements have been placed on us for reporting. In New South Wales, for example, amongst other wonderful statistics, we report the number of people in the SES, the performance agreements of any SES member over grade 5, the number of complaints by category, the number of consultants used and so on. The reports are growing fatter and fatter, ever less appealing to look at, and ever more unlikely to be opened by any public relations targets.

The individuals who receive annual reports as public relations tools tend to fall into the categories that might be classed as senior executives, politicians, important dignitaries, wealthy individuals - all the sorts of people whom we are trying to impress or tap for funding of some kind or another. They receive far too much paper already. They will not read past executive summaries, if that. By the time our reports have complied with the annual reporting requirements, they are weighty and essentially tedious documents.

To include such a document in a presentation package or accompanying a submission is essentially a waste of everyone's time and money. People have gradually realised that it is no longer worth producing them in glossy colour, so now we have been seeing a gradual shift to the down market, two-colour minimum-cost approach and we see developing alongside it a stream of brief, appealing, glossy smaller versions for our PR targets, perhaps on a biennial basis, without all of the compliance requirements in them.

The other change to have occurred is that in an effort to appear socially responsible, we are also seeing a shift to recycled paper, which if adequate care hasn't been used in selecting that particular recycled paper, means that our annual reports may be rapidly self-destructing everywhere on shelves, so the historic public record may be quite short-lived.

At the end of the day, here we still are, contracting teams of graphic designers and annual report creators or diverting our staff from other duties and spending funds we can ill afford in order to meet what we all agree is the very real need to be accountable to the people and open to scrutiny. Yet if the reports have been put together by consultants or public relations staff - and usually there are staff in the public relations area working on them - then they are carefully crafted to give the most positive spin to the facts and to conceal the blemishes. Hardly the intent in reports intended to deliver public accountability. So why are we doing it and how could we improve things?

As someone who spends a minimum of two to three weekend afternoons or evenings and a number of working hours playing my part in ensuring that the annual report event all happens, let me suggest an option that I would say is surely close to being technologically and practically feasible. Imagine, if you will, a large database or databases. Into it is fed certain key data, previously agreed by a group such as the Public Accounts Committee about

each department under agreed fields, such as objectives, strategies, key result areas, performance measures and performance against those measures - at least annually.

Departments may prefer to feed in and accumulate that data from their in-house information systems on a monthly basis. It would contain all those wonderful statistical tables and charts which are now required of us, human resources data, the accounts from the day they are ready to the day they are finally cleared by the auditor, and so on. Large parts of it then could be available on line very soon after 30 June, as it would consist of key data and would eliminate most of that carefully crafted verbiage, although it would still be possible to have some free text available for analysis.

What I suggest is that the essential data that one would need to really assess performance - those performance indicators that we have been talking about and the accounting data - would all be there, would be there early and would be there up to date. It would be available on line or by dial-up from any parliamentarian's office, and as this is information for the public, it would be available by dial-up from every public library. Of course, it would even be available via the internet for the world to assess our performance, if we wished.

If we wanted to get really *clever*, and *brave*, we could provide software to calculate and provide trends, comparisons and various economic analyses. We could even make available overseas data for comparison, if it could be established that comparisons were valid. Getting really carried away in pursuing public accountability, perhaps we could even provide an interactive facility to allow questions to be asked by the public, and answered.

We would then have no annual design costs, no printing costs, less writing time and better long-term success in reporting performance. I am sure that there is even a library or two around, including one next door, which could assist in designing the database and developing the necessary data fields.

You might say, "Well, what about the difficulty of the public in having access to that on-line information?" My answer to that is: Yes, there is certainly a difficulty for many people these days in having access to and in coming to grips with using computers for information, but that surely is a problem that we must tackle in relation to a whole host of information right now if we really want to keep the public up to date with the areas of information that we want them to have access to and that they will need to have access to. That problem is not limited to annual reports. A public education program should be addressed on a major scale right now in order to ensure future access to all sorts of information. Across government at Federal and state level there are major activities under way now to consider how we can provide on-line access to government information readily through local access points.

With the time and money that we have freed up, we could then think about other ways of improving our responsiveness and accountability to members of the public and think of providing them with proper access to the sort of Government information that they want to

use in their daily lives, as opposed to the sort of information that they are not really interested in - the information we are gathering from them or generating through research, and building into databases, such as agricultural information, land information, environmental information, all kinds of registers, health data, tourism data, data on Aboriginal affairs - the type of information which is presently the meat of departmental operations but which the public presently has considerable difficulty in accessing or even knowing where to go to obtain.

I am not talking about the type of information sought in FOI requests, though no doubt that would form part of it, but the type of information that is required by small business and industry, by schools, and by community groups. To me, being truly accountable means providing real access to Government information, and that could be relatively easily achieved.

We do not need to pump out ever-increasing numbers of explanatory pamphlets and brochures, nor do we need to pump money into exotic establishments such as telecottages. I suggest to you that we think of making use of the existing network of public and other libraries in the country and of schools, and so on, as one-stop shops for Government information. This is not a new idea; it has been around a long time, but isn't it about time we tackled it? Perhaps we could do that with some of the time that we might have leftover from not putting a lot of time into the PR side of our annual reports.

After all, public and other libraries Australia-wide are already well used by the public - by about 50 per cent of the public on average now - open longer hours than any Government department and staffed by trained information professionals. The basic technology is already in place to provide a gateway from Government databases to those libraries, and the technology is on the way to enable them to be accessible from the home or the office, as we hear every day lately.

So leaving my soapbox about making Government information more readily accessible and returning to annual reports, I have been attempting to say that, in my view, annual reports will never make "a good read", so we should stop spending time and money pretending that they can be. We should recognise that we are talking about the provision of sound information about the performance of organisations, to which the public is entitled to have access. When we see it in that light, we can then set about determining the most cost-effective way of providing that access. Print and paper, in my view, is no longer the answer. Thankyou.

MR GLACHAN: Thank you very much, Alison. Have we any questions?

MS MILLER: Judith Miller, EPA. Earlier on, I gathered you were talking about making raw data available as soon as it was compiled rather than waiting for it to be, as you said, carefully crafted. I wonder whether you would expect that, by so doing, you would necessarily get relevant information.

MS CROOK: Obviously, we would have to reach agreement on the sorts of fields, the sorts of information that was wanted.

MS MILLER: Within that area, I am working now with material that is about four times the length it needs to be and concentrates on quite detailed technical reports on activities. Somebody looking for particular information or looking for the relation of that material to the particular objectives might have some difficulty. They could be snowed with a mass of information.

MS CROOK: Obviously, as I say, it is up to groups such as the Public Accounts Committee to say what sorts of performance indicators they are looking for. If you have your objectives, you should develop performance indicators that show whether you are achieving those objectives. We do not need a lot of extra information. You have the information in your own organisation that might support your end result that shows whether you are achieving those objectives, but you must have some sort of information that then goes to the report, and it will be a limited amount.

In management information systems, you have layers of information accumulating upwards. Everybody does not want to see every layer. It is not relevant to everybody. Only the top layers may be the ones that we finally put into the annual report, in the categories on which we have already reached agreement. It is a case of carefully thinking about what indicators will be used in an organisation and how we accumulate that information.

It may be that is accumulated to top level on a monthly basis. That is what I was suggesting might be rolled into a database on a monthly basis. A department might wish to otherwise accumulate for the year and roll in the end result. That is what I was suggesting. Much of what is in technical reports would never, ever get to the level of database that I am talking about. That is for internal purposes only. You are talking for annual reporting purposes, about the sort of thing that shows outputs and outcomes - outcomes preferably, outputs at most.

MR GLACHAN: Thank you very much, Alison. I ask you to show your appreciation to Alison. I will take this opportunity on your behalf of thanking Mr Gifford and Mr Harris as well. Thank you very much. It is now time for afternoon tea. The next session will be chaired by Peter Cochran, the member for Monaro. The first speaker will be Dr Cope, former Parliamentary Librarian, and followed then by a panel discussion. We are due back here at 3.45.

(Short adjournment)



**Dr Russell Cope**  
**Former Parliamentary Librarian**

## **Reporting by Parliament**

MR COCHRAN: Good afternoon. My name is Peter Cochran. I am the member for Monaro. I represent that area of the State which includes the Snowy Mountains scheme. Whenever I have cause to consider or pass judgment on reports, I cast my mind to the radio reports on the quality of snow in the ski areas. If you were to consider the quality of some of those reports compared with many of those which have been discussed today, you would realise that these area long way in front of them. It is my responsibility to firstly introduce the next speaker and then to move on from that to a panel, which will include five speakers, who will each have five minutes to give a short delivery. Then we will have a panel discussion wherein we will allow the audience to become involved.

Firstly, I am delighted to have the responsibility of introducing to you Dr Russell Cope, who is a former Parliamentary Librarian and served with the New South Wales Parliament for the period between 1949 and 1991, the last twenty-nine years being the Parliamentary Librarian. He is an author of note and an institution in the Parliament, one who is held with great affection in parliamentary circles. He has given great advice to many people over many years in this place and he is certainly welcome back to become involved in today's activities. I therefore would like you to give a warm welcome to Dr Russell Cope.

DR COPE (Retired Parliamentary Librarian): First of all, I thank the PAC for the opportunity to talk on an aspect of a subject which has been strangely neglected. Today, we have heard about annual reports in the public sector. The word "parliamentary" annual reports has not been mentioned. Mr Lambert talked about the new legislation to come forward, but there is no suggestion that is to apply to the Parliament.

The advantage of being the last speaker is that one has heard what everyone else has said. I have taken a few notes, and it has interested me greatly that every speaker has touched on matters that are included in my paper, perhaps from a different point of view, but they all interlock in some way or other. My paper entitled "*The other Face of Accountability: Annual Reports from the New South Wales Parliament and Its Organs*" is in the documentation that was handed out to you. It is a long paper, but I must apologise because it is not long enough. It should be twice the length to do justice to a subject that is, by nature, extremely intricate and little understood or studied.

The relationship that interests me particularly is the political relationship - the intertwining of political and administrative matters. We have not heard the word "politics" mentioned very much today, but I have listened with some astonishment to what people in the administrative sector think that the Parliament and members can do. That will become clearer as I proceed.

I do not intend to go through my paper. That is obviously impossible. I want to pick out for comment a few points. Before I do that, I will briefly review some points that other speakers made earlier in the day. I was delighted to hear Mr Baxter use the word "health" -the health of an organisation. I have strongly emphasised that point in my paper. He used it twice, and he also mentioned another factor that I have drawn attention to. I call it the "Loo Loo won't like it" syndrome. When you read my paper, you will see the context in which it is used. Mr Baxter made it clear that when a chief executive officer writes something that his Minister is highly displeased with, we have an example of the "Loo Loo won't like it" syndrome.

A few questions have been asked today about telling the truth, about what is going on in an organisation. One must be mindful of the politics that are involved in all that. Sometimes, the Minister that is "Loo Loo", won't like it, and the official compiling the report is well aware of that. Those are difficult issues on which Mr Baxter reflected.

I was interested also in Mr Warrell's presentation, when he talked about human resource evaluation. It is also dealt with at some length in my paper. It is not helpful if annual reports concentrate too exclusively on what is called hard data. Naturally, they must provide hard data, but a strong concentration on that, if it leads to neglect of other factors, is not healthy or desirable.

The other point that interested me was that several speakers talked about technology. Ms Crook certainly made a strong plea for technology's advantages to be put to better use. What she says is perfectly correct. I also pick up those points in my paper. Her ideas and mine coincide fairly closely, although I take it a little further in some respects than she does. I would strongly urge the Public Accounts Committee to give greater thought to the developments of electronic technology in the field of annual reporting, in fact, in the field of Government publishing as a whole. The issues paper produced by the PAC does not really take that aspect into consideration.

The other point of interest lay in the Auditor-General's observations. I had done something similar to what he did in reviewing a number of annual reports. I was concerned however, only in reports produced by Parliament or its organs. The thought had crossed my mind whether anyone would look at the police annual reports in connection with the current royal commission. He has done that, and it was interesting to hear the way in which he approached that and the conclusions he drew from this exercise.

The other point that the Auditor-General raised -and it is a very good point - is what are the expectations that we bring to annual reports? By the "we", I do not mean members of our political class. I mean "we, the citizens". In that regard, he made some telling points.

I have approached the parliamentary reports from that very angle. Having worked in this place for a longtime, I know the culture, although I must quickly point out that because I have not worked here in the past four years, my information may not be totally current. However,

I do not think that the culture will have changed all that much. That allows me to know some of the questions to ask. Part of the problem in scrutinising annual reports is that if you do not know the questions to ask, you are in a rather passive relationship to the information that is in front of you.

Those are just a few introductory remarks on my impressions of earlier speakers. I think one of the successes of today's meeting is that all the papers interlock in some respect. They do not all agree with each other, but they do interlock and complement one another very usefully.

When it was suggested that I might come along to this function, I was delighted to be able to do so because the topic has long been of interest to me. The thought crossed my mind that the person who should be better invited to give this presentation is Frank Sartor, our Lord Mayor, but at one time the director of this committee. He was not without controversy. One thing I remember very clearly about him was that he, once wanted the PAC to look into the nature of parliamentary administration.

You are well aware that our Prime Minister has a favourite image of Dracula recoiling at the sight of the stake. The suggestion by Frank Sartor that the parliamentary administration might be looked at by the PAC evoked the same response in some of the corridors of power here. I am sure that he would have observations to make that would be more interesting than those I could offer.

While I worked here, I was a producer of annual reports, so I have been both a producer and a student of them. I tried, with a remarkable lack of success - to get parliamentary departments to produce annual reports. Since I have retired, some reports are being produced. That is a good and welcome sign.

When you read my paper, you will see that, unlike some of the earlier speakers, I do not try to present solutions or make suggestions so much as raise questions. That is the one strand in my paper.

The other strand in my presentation is a sceptical strand. I am sceptical about the way in which things run in Parliament. I am not sceptical about the people; it is the system about which I am sceptical. You will see that I raise some questions that probably will not please the Public Accounts Committee. I consider myself, in effect, something of a Trojan Horse. You will recall that the Trojan Horse was left outside the walls of Troy and the Trojans were delighted at that unexpected gift from heaven, took it into their city and thought how lucky they were to have it. They shortly thereafter had time to revise that opinion and regret their eager welcome. I think I am in somewhat of the same category.

As a starting point for my paper, I considered the PAC Issues Paper and took seriously the indication that the PAC is interested in this topic. I have heard nothing today to make me doubt that, which is encouraging. The committee seems to be interested in the quality of

reporting, and I think we should all be interested in that. Earlier, the topic of adequacy of scrutiny was raised. It is the aspect of scrutiny that I want to focus on, the adequacy of scrutiny and particularly the techniques for reviewing annual reports.

The Issues Paper of the Public Accounts Committee does not pay enough attention to techniques that could be used for evaluating annual reports. In his luncheon address, Mr Baxter mentioned the word "communication". These days, an enormous amount of material is written on information theory and communication theory. They should be applied in looking at annual reports in the public sector. One need not reinvent that particular wheel, either.

If I am wrong in those assumptions of the PAC's serious attitude to annual reports, my paper is based on false presuppositions, so that the premises are mistaken, but I do not believe that is the case. The point that I want to emphasise, and one that seems central to me, is that the nature and the adequacy of scrutiny of annual reports in the parliamentary environment poses considerable problems. My paper is substituted *Annual Reports from the New South Wales Parliament and its Organs*. It was intentionally framed in that way, and I draw that to your attention. The reason for my doing so will become clear in a moment or two.

When I was thinking about this paper, some of the reading that I was doing at the time came in very useful. Some of it is quoted in the paper. Many of you may already know the book by Henry Mintzberg called *The Rise and Fall of Strategic Planning*. If you are interested in the questions of communication, annual reporting and information as such, do have a look at that book. It is very readable and cuts a lot of things down to size. In the question of annual reporting, we can easily fall into jargon and into following the fashions of the day. I think the time is ripe - and I am glad that the Public Accounts Committee has, so early in the new Parliament taken the initiative to look at the subject with fresh eyes.

At the same time as I was reading Mintzberg, I read another book that most of the politicians here would know of, if they have not already read it. It is *Confessions of a Failed Finance Minister* by Peter Walsh. Everyone in the public sector should read that work so as to get some insight into the reality of parliamentary procedures and political culture. Peter Walsh is somewhat controversial in Labor circles, because he says it as he sees it, and not everyone is happy that he does so.

If you do nothing else, look at page 111 of his book, where he talks about featherbedding of executives of non-Government organisations, and at page 83, where he talks about the hours worked by members of Parliament. There is a lot of mythology about that, too.

The third matter that I would draw to your attention as background to my paper is the very serious decline in the status of Parliament and the low public regard in which politicians are held. That comes as no surprise to any of you here. It is a worldwide phenomenon; it is not only Australian, and it will gradually have an impact if politicians continue to lose public esteem. I saw reported an opinion poll in which members of the public were asked their

rating of various callings: politicians were marginally better than journalists. I do not know how symptomatic that is, but I mention it for what it is worth.

I have approached the problem of annual reporting from several perspectives. First of all, I felt that I needed to look at annual reporting as a field, not particularly just as parliamentary annual reporting. The second part of my paper concentrates on parliamentary annual reporting. I wanted to set a context to be sure in my own mind that I had all the variables that I was aware of in place, and to pose some questions to you.

The context of annual reporting can easily get caught up with a number of shibboleths. We have heard some today: they are words we use without thinking very deeply about their meaning. I mention in particular the “cult of information”, especially with its emphasis on hard data, and the other cult is the “cult of accountability”.

With regard to the “cult of information”, the statement cited on page 5 of my paper sums up neatly the points that need to be given some weight. Overemphasis on “information” can lead to an assumption that we are obtaining “meaning”. I do not think that anyone has mentioned the word “meaning” today, although it has been an undercurrent implicit in a lot of what has been said.

My paper addresses these points in several ways. One way is by expressing reservations about officially promulgated guidelines, because I am very sceptical about “political correctness”. Another way is by proposing a wider framework for understanding what organisations are about in non-measurable and non-statistical terms. That is where the word “health” comes in - the health of an organisation its morale and esprit de corps.

Somebody mentioned that not enough is done in the way of further education in the public sector. I do not know whether that is true. When I worked, everyone seemed to be interminably on courses. I do not believe that, at least in the Parliament of New South Wales, not enough work on staff development is done. However, it is all very well sending people to courses. If the morale of an institution is poor, that will achieve nothing other than spending taxpayers' money. How do we know what the morale of an institution is? That is a difficult question to answer. One cannot measure that in statistics - or perhaps only marginally. Those things are very slippery to get a handle on.

The criteria that might be applied to annual reports as a class are best linked with concepts such as “understanding”, “transparency” - a word we have heard used today, - and “meaning”. I have developed that theme in the paper. “Transparency” and “meaning” should go together. Earlier this morning, Bob Walker mentioned some of the ways in which transparency can be circumvented.

Accountability, too, is a term which may be too circumscribed to meet the goals set out in my paper. I took pains to quote from Gary Sturgess, whose name was mentioned obliquely

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earlier today. Sturgess questions very seriously the capacity of Parliament to carry out accountability. In his paper which I cite he raises very fundamental questions which have implications for the future.

That brings me to something that I had not realised. The issues paper of the PAC contains a proposal that a public bodies review committee be established. I had not realised that had gone beyond being a proposal, that it was actually going to happen. That means that there will be another parliamentary committee. My paper certainly expresses scepticism about the ability of parliamentary committees to carry out real scrutiny. It also raises the question of whether the resources that are available to carry that out are adequate.

My paper expresses some heretical thoughts about staffing in Parliament and wonders whether the resources in Parliament are well used as they are. If a new committee is established and if the present culture remains as I knew it, I have no doubt that extra staff will be recruited. The PAC, as a committee involved in, or concerned with, matters of effectiveness and efficiency, needs to look also at that.

The range of skills that are needed to carry out the type of scrutiny of annual reports advocate "the other Face of Accountability" are not common or garden skills. That matter should be addressed, too.

We have talked briefly about the "Loo Loo won't like it" syndrome, that is, that the information that is provided is really "sanitised". You get something that is bland, that has had controversial things cut out, because the people preparing the report know that the political masters will not like it to be otherwise. That is an eternal problem in public administration. I will have some more to say about that shortly when I deal with parliamentary annual reports.

With regard to technology, I have made a suggestion that goes beyond what Alison Crook said. Because of the low esteem in which Parliament and parliamentary practices and procedures are held a greater involvement of the public in looking at these matters might be contemplated. I have suggested, just briefly, how that might be envisaged.

Electronic technology makes a lot of things quite possible that were, only a little while ago, just unthinkable. Also, that ritual of annual review need not be as watertight as it used to be, because the availability of information on databases, online and so forth, means that information can be updated at any time and could have an influence on the parliamentary timetable.

I mention, too, developments in the United States. I refer particularly to the Al Gore report to President Clinton called *From Red Tape to Results*, which is important. It is one of those basic papers dealing with Government information. In that, you will find mention of the US Office of Management and Budget Circular 130, which is an extraordinarily long circular, available on the Internet. That document is highly important because of the

information it gives on how the US Government is planning to use technology to make official information available in a way that was never contemplated earlier.

As time is running away from me, I had better move on to the second part of the paper, which deal with Parliament's own accountability. Obviously, the remarks I am about to make are subjective. When I told a friend of mine that I was going to write this paper, he said, "What are you going to call it - Look Back in Anger?" I denied that, and my analysis is gentle. Good things are happening here as well as things that are less good. I have not tried to provide a critique of the annual reports - the few that are produced - simply because that would take me too far.

The problem that we have within the Parliament is the intermeshing of both the political and the administrative. I have taken some pains to set that out as clearly as I can in the paper. The Parliament consists of two arms: The legislative arm with the politicians, who are elected and can be here today and gone tomorrow; and the service arm, which consists of the various departments, as they are called, of the Parliament, which are staffed by career officials. Very little study has been done of the Parliament from that point of view. There is considerable information on the political aspects of it, but the administrative aspect of the Parliament is very largely unstudied.

I come now to a controversial part of the paper - more controversial than some of the parts that I have mentioned. My paper inevitably had to consider, if only in very muted and gentle terms, the nature of parliamentary administration and the contrast between the public face of the Parliament and the inner realities. That contrast is systemic. I am not criticising individual performance, and my comments are certainly not to be taken as a criticism, in themselves, of the administrators, who are, to some extent, the captives of the culture and the climate.

It is an interesting question when you consider what you, the audience - apart from our politicians - as citizens might want to know about the Parliament. There is no publication of the Parliament that reports on itself. In my paper, I have drawn a distinction between those two arms and I have dealt briefly with the reports of the political bodies, the committees, mainly. I paid greater attention to the administrative side, but one thing I did raise was the fact that there is no report from the Parliament as an entity.

I raised in this connection the question of whether the Parliament is an "organisation", and drew an analogy between the Parliament and the military complex. To me, it makes sense of many of the things that I experienced when I was working here. This is a polycentric place. There are some guidelines for administrative procedures, but there is an extraordinary number of power bases and a certain degree of capriciousness in the way in which the place is administered.

I also raise the question of the cost of parliamentary government. I think it is generally true that in Australia the cost of parliamentary government has soared. I am not aware that

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many people have done as much investigation of that as the subject warrants. Rising expenditure in itself is not necessarily a bad thing if you are getting value for money.

In looking at the committees, I considered the annual report of the PAC, which is a good report. I suggest that if you have not had a chance to read it you should do so in the light of the points that have been made already today. I think it stands up quite well. It has some deficiencies and I have pointed those out in my review.

One issue raised in my paper was: Why is there no report from the presiding officers of Parliament? The Presiding Officers - that is, the Speaker and the President - control this organisation, if it is an "organisation", and have control over a very considerable amount of public money, but are they accountable? What does "accountable" mean? I was interested to note that the Presiding Officers of the Parliament of Victoria are presenting a report. It is not a wonderful report; it will not win any prizes, but it is a start.

In this day of accountability and "open government", the Parliament must be far more transparent than it is. It may be that some people do not want it to be any more transparent than it is. Nevertheless I make a plea for greater transparency because if the Parliament is to retrieve some of its lost reputation. This may help redress the balance.

We know that the difficulty these days is the behaviour of the political class: as mentioned already this is a worldwide phenomenon. Political institutions have been subverted by the behaviour of those people who are in control of them. That matter goes beyond my brief and is something that members of the Public Accounts Committee never imagined that I would raise. However, I mention it because the decline in the reputation of parliaments is relevant to the points that I make in my paper about parliamentary reports.

I am sorry, ladies and gentlemen, I am going well over time and I will conclude now.

The final thing that I raise - and this is more important than some of the other things that I have mentioned - is the nature of review of parliamentary annual reports. I make a plea for the PAC to consider peer review: I am aware of the difficulties in finding a peer to Parliament. My paper offers some suggestions there. You can see, ladies and gentlemen, in the hurried way in which I have had to proceed, that there is an enormous amount in this topic, if you regard it in the way that I have chosen.

I believe, in conclusion, that a great deal of scepticism is required about the way in which the Parliament runs itself. It expects other people to be accountable to an exceptional degree but is, in itself, not a good exemplar of accountability.

MR COCHRAN: Thanks very much, Dr Russell Cope.



**Mr Peter Cochran MP, Committee Member and panellists**



**Craig Prosser**  
**Secretary, Annual Report Awards Australia Inc.**

## **How to achieve excellence in reporting**

MR COCHRAN: I think in the interests of time that we will now proceed with the final segment of the afternoon, and having been formally stripped of all my dignity by the last speaker I will now introduce The first of the group of five panellists and ask that each address us for about five minutes. The first is Craig Prosser, who is Secretary of the Annual Report Award and has been since 1992, Director of the Internal Audit of the University of Sydney since May 1995. His previous experience includes 10 years with the internal audit of the New South Wales Department of School Education, five years with the Australian Audit Office and two years with the Department of Defence. The panellists will be addressing the subject "How to achieve excellence in reporting". Please welcome Craig Prosser.

MR PROSSER (Acting Chairman, Annual Report Awards Australia Inc): Thank you very much for inviting me to speak today on behalf of the ARA. What I have been asked to speak about is how good are public sector annual reports. Probably before I start I need to just, for those of you who are not aware of the ARA, fill you in on our basic philosophy and structure. Basically it is an incorporated non-profit organisation which operates using voluntary Labor, which has been operating for 45 years.

The ARA awards gold, silver and bronze trophies to organisations that meet a very strict set of criteria we have that we publish. It covers a very comprehensive range of issues from people management objectives, performance measures, financial statements and those sorts of things. It covers a wide spectrum of the sort of information you would find in any annual report so it is very specific. Basically an organisation that is deemed to have achieved adequate coverage and degree of excellence in relation to each of those criteria are eligible for awards.

It is not a contest as such, it is basically that we have set a standard and organisations that achieve that standard receive an award. It is basically a discussion about whether it is gold, silver or bronze based on the assessment of the adjudicators of the ARA.

With that in mind, what I will speak about basically relates to the ARA. It is how the organisations have met our criteria rather than necessarily any other legislative requirements. We don't necessarily examine whether an organisation has met its legislative requirements, we are more interested in it meeting the ARA criteria. I would say, though, that the basis of the ARA criteria is very similar to much of the legislation in the public sector around Australia.

How good are public sector annual reports? I have done a bit of an analysis of award winners over the last four years and there has been a fairly large increase in the percentage of awards that have been going to public sector organisations. In 1992 the public sector organisations represented 32 per cent of all awards made and 29 per cent of the gold awards were public sector. This year it was up to 52 percent across the board, with 50 per cent of all

the golds being from the public sector. I think that is a reflection of the way that the reports have improved over time.

In terms of comparing them to private sector organisations I would say that the very best of the public sector reports are at least equal to anything that the private sector puts out and that in general terms they are certainly much more comprehensive, they tend to cover all aspects of our criteria whereas a number of the private sector reports are very deficient in specific areas such as providing details of the people that work in the organisation, very few private sector reports have meaningful objectives and even less really do any sort of valuation of their performance against those objectives. By and large the public sector reports do all of that and do it well.

I don't have much time but what I thought I would do is briefly go through some of the areas where in the view of the ARA public sector reports really need to improve. One of the main problems I think is that the reports tend to assume that the reader has an intimate knowledge of the organisation, it uses a lot of jargon and omits really key bits of information that are really essential if the reader is going to understand the basis of the report and what the organisation really does. Very few reports really give any sort of indication as to the readership that is expected to go through the report or the purpose of the report.

I just note that there is a trend in a number of organisations to actually have a section near the front which is really something like what this report sets out to do or the basic objectives of the report. I suggest that organisations should give some thought to that.

When you are actually developing your report you really need to think about your audience and make sure that you target the sort of information that audience would like to read and needs to know. We have already discussed numerous things such as the political aspects. Invariably public sector reports are overly political in that they often omit major issues that are really the core of the business's operations. There are some reports that omit really key factors. I feel if they were private sector reports they would be hauled before the ASC to explain why they omitted key data.

Because we have so many items that are compulsory, a lot of the reports seem to put that information right at the back. Much of that, but not all of the information, is deemed essential by the ARA criteria and to hide it at the back is really not really giving the reader a fair chance to understand the organisation. If you have to wait until page 55 to find out a key bit of information you have really missed the boat in our view.

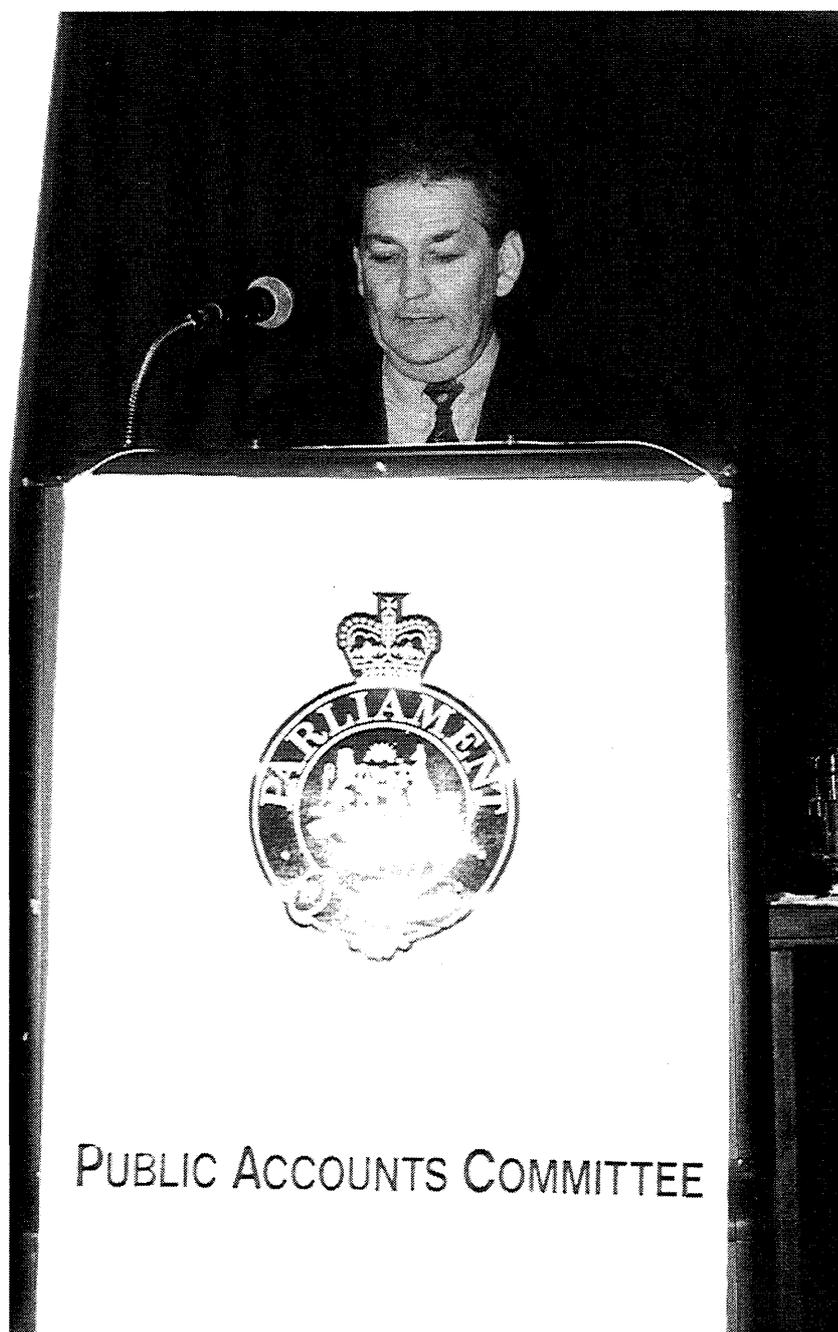
The last thing I wanted to mention was the issue of objectives and measurement of performance. What tends to happen is that the objectives that we set are invariably task oriented, things like putting in a new program or developing a new plan. That really isn't an objective, to me that is a task, and the issue is really what is expected, what outcome you expect from the implementation of that program or plan. It is all very well to finish a task but

the end result may have been a worse result for the organisation, which have has to be disclosed.

I will end on a positive note and say that an example of how good the annual reports in the New South Wales public sector are at least is that the ARA Report of the Year for the first time went to a public sector organisation, the New South Wales Office of State Revenue. It was deemed by the committee to be the best report we saw out of approximately 400. Bruce Buchanan is speaking next and he will no doubt be able to give you some hints on how they went about producing their report.

The other issue is that we this year offered three I guess runner-up awards, and of those two of those organisations were public sector and only one was private industry, so of the top four reports in 1995 only one was private sector. I think that is a good guide. I guess we can always improve, but the public sector reports, the best of them, are equal to anything in Australia. Thank you.

MR COCHRAN: Thanks, Craig.



**Mr Bruce Buchanan**  
**Executive Director, Office of State Revenue**

MR COCHRAN: Our next speaker, as Chris indicated, is Bruce Buchanan, who has been a public servant for 35 years, including service with the Stamp Duties Office, the New South Wales Law Reform Commission as its Secretary, the administrative officer of the New South Wales Attorney-General's Department, the Deputy Commissioner, administration, Stamp Duties area of the Department of Finance, and in 1986 he became Commissioner of Stamp Duties. In October 1988 Bruce was appointed as the executive director, Office of state Revenue, a position he still holds. He also holds a Diploma of Law. I ask you to welcome Bruce Buchanan.

MR BUCHANAN (Executive Director, Office of State Revenue): Thank you very much. I am not sure that at 4.30, in an event that commenced at 9 o'clock, there is a lot to be said that is new. I do have to, though, start off by thanking the staff of my office for apparently not giving to Tony Harris OSR's report before this event.

You have heard throughout the day a number of observations made, some of them competing observations, about the value of and the use of mandatory obligations for annual reporting, and my view on that is that there is no argument about those. If we get them in, and get them in properly, there is every prospect of having a clinically correct and perhaps clinically perfect report.

But I think the real issue in terms of any report, be it public or private sector, is in the single most important ingredient - and that is the chief executive officer. It seems to me that unless the chief executive injects himself or herself into the process right from the beginning and maintains a stamp of ownership on the process through to the end, there is every likelihood that we will finish up with just what I talked about, a clinically perfect report but one that really doesn't have the soul that distinguishes the best reports from the rest.

It is the chief executive's ownership, involvement and commitment and the conveyance of that to the people who go through the process of putting the report together that really transforms the process from being a chore and onerous obligation every year into what you might call a Labour of love.

I guess I can only really talk to you about my experience and the approach that I adopt and that our organisation adopts to get that sort of expression of commitment across. If you like, how we instill in the people who undertake the process the understanding that this is something that really gives a chance for OSR to actually celebrate the year gone by. At the outset I think the people who are drawn together to prepare a report should be reminded, for example in OSR's case, just what business we are in - and in OSR's case it is the business of taxation. It maybe treated with some disdain if just left at that, but in fact what people should be reminded of is what our mission is. And that is to raise taxes to finance services for the people of New South Wales.

Viewed in that context I think it is fair to say that you can start to look at the reporting from the point of view that there is much to be proud of. We always need to keep a very clear

focus on the fact that our reports are about talking to our stakeholders. Whoever they might be, the report should focus on them. The whole quality assurance process in reviewing reports as drafts begin to emerge should really look at the focus of the narrative and the commentary that is being made. In my own case I review each progressive draft and I tend to look at it as if I had no connection with OSR other than as perhaps a peripheral observer of the organisation.

As drafts emerge, if they provide a very clear picture of the critical internal issues, the internal processes and activities, and focus on a variety of aspects that I and other members of the OSR executive can really relate to totally, it is probable that I will throw the draft away and ask them to start again! The reason for that is it is more likely than not that words that are pitched at that level will really have a slant that is entirely irrelevant to the person outside the organisation and will be totally wasted on the external reader.

Ultimately the annual report should be capable of being picked up by you or anybody else, read out of interest and make sense. It should have the potential to put you, as the reader with no real connection with the agency, in the picture about what we do, what we have done in the year and how we have gone about it. Of critical importance it should indicate why we have done it. We are after all spending public money and there should be some observation made about why we have gone about doing the things that we have done.

In OSR's case it is absolutely critical that we put the taxpayers of New South Wales in a position to make a judgment about whether the taxes they are paying are being raised efficiently, whether there is any attention to equity by the tax administration and whether the customer or client is actually valued by what is otherwise viewed as a money gathering monster. Now I observe that Arthur Delbridge, the principal of Annual Report Partners, who is also aboard member of the Annual Reports Awards Committee for the last 15 years, claims an annual report fails as a marketing document if a reader can't find out what an organisation does, where it is going and where it is has been, in the first five pages, and that is an interesting comparison and support for what Alison Crook said earlier.

That should be the principle on which we operate. Mr Delbridge went on and said that this year's award winners went further than merely being reader friendly, informative and attractive. In addition he said the report said, "pick me up and read me", and if we achieve that I think we have gone a great way towards really producing documents that have value.

The final point I would like to make is that I am delighted to say I agree with what Ken Baxter said at lunch time, that annual reports are not an end in themselves - they should be about being a number of things. They should be a tool for exciting interest in the organisation by people who, as I say, have aright to learn about the organisation, whatever public sector agency we are talking about. They should acknowledge effort, and I particularly believe they should acknowledge the efforts of staff who frankly make up the story of any agency over a year.

They should honour our obligations to accountability, not only talking about the comparison between the targets we set for ourselves at the start of a year and the results but also going so far as to make public what our targets are for the coming year so that there can be a proper accountability record in the following report. And as far as possible I believe there should be bench marking against other comparable agencies and their performances. In our case we benchmark against other state tax collecting agencies around Australia.

After that, whatever else comes, be they other acknowledgments or awards, that is a bonus. It maybe a very welcome bonus but the real value in the awards process for us is this and I think for too long there has been a belief, and it is not disappearing quickly enough, that the public sector lags a long way behind the private sector in a whole range of things. The annual report process is one way of showing that is not the case. Thank you.

MR COCHRAN: Thanks Bruce.



**Mr Alex Walker**  
**Chief Executive, Prospect Electricity**

MR COCHRAN: Our next panellist is Alex Walker, who is the chief executive of Prospect Electricity. Alex was pointed chief executive of Prospect in October 1993. His appointment coincided with the most challenging period for Prospect's 40-year history. He took the helm as Prospect sought to satisfy heightened customer expectations while preparing for increasing competition in the reregulated electricity market.

Prior to joining Prospect Electricity - a difficult word sometimes for me to pronounce - he had spent 28 years with Sydney Electricity, including the senior position of General Manager, Southern Region. He holds an Economic Degree with Macquarie University after obtaining his Engineering Degree from the University of New South Wales in 1969. He attended Cabramatta High School in Sydney's west. I would like you to welcome Alex Walker.

MR WALKER (Chief Executive, Prospect Electricity): Thank you, chairman. Yes, you are quite right, electricity is a difficult word and in fact despite the incorporation of that in our name in this changing world we have redefined our business as the energy services business. That I think reflects the degree of change that we are experiencing in our industry and I am sure that many of you are in yours.

In our case this means that we are going from a public service culture through various stages of commercialisation and corporatisation and, dare I say it, perhaps to use the dreadful "P" word, privatisation. As we go through these various stage slots of issues of accountability arise and have to be thought through. This has demonstrated to me that there is no formula for the way we run our business. There is no formula for how accountability is exercised.

I don't pretend to be any expert in annual reports but I would like to give you from my perspective three points relating to annual reports which reflect the lessons that I think I have learnt and we at Prospect have learnt over the last couple of years. Those couple of years have been nominally very successful for us because we have been gold award winners, yet I think we have a long, long way to go until we get to the way we would like to have it.

The first lesson has to do with standards and the problem of not being clear about the standards against which you are going to be measured. We have all heard of the 18-year-olds who have disappointing HSC results because they are not exactly sure of what they are in for. My younger son happens to be one of those from last year. So I have given some thought to that in relation to this question of annual reports. I look back to the stage a few years ago in Prospect and in the organisation I came from, I am sure in other organisations too, where senior managers all kept a file in the bottom drawer which was the annual report file and any time a good news story came along or something you thought people might like, you slipped a bit of paper or photograph in there to remind you at that once-a-year to drag it out and present it as part of your contribution to the annual report. Some unfortunate would be locked in a room for a month and not allowed out until they emerged with an annual report that looked good and satisfied reasonable reporting requirements.

The big thing that has changed is not the way the annual report is written or how it looks but it is the fact that the annual report has become integrated into the whole planning process of the organisation. I notice there was some reference from Russell Cope to Mintzberg talking about the end of corporate planning but certainly in our organisation we have just really come to grips with the idea of continuity, that the planning and reporting cycle just rolls on year after year and that producing an annual report is really quite easy once you have put in place and had agreed your performance measures and the like. So that is really our first lesson.

The second lesson relates very much to what we have just heard from Bruce. From my own position, despite what Bruce contends, I am sure he is right that it has to be owned by the chief executive. I am fortunate or unfortunate I guess to be in a position that when our annual report came out last year I thought it was awful and it surprised me, because I had not taken the trouble to make it my own. Notwithstanding that, we had a pretty good team who had been responsible for that and as a result of which we won a gold award. However, when thinking about accountability and the fact that people like me are on performance contracts these days, I thought that if this is the document in which I wished to convey a clear messages of performance to ministers and parliament and the like, I had better take some personal interest in it. I believe that from now on, through taking personal interest and making this commitment, it will be a much better document than it has been in the past.

The other comment perhaps relates to how do you see the annual report. In our case we unashamedly promote ourselves and we regard the annual report in a commercial world - and we are in that sort of nether region between the public sector and the commercial world - we see it as a marketing opportunity and we unashamedly approach it in that way. Perhaps if I were able to produce an annual report for \$4, or whatever figure was quoted earlier by the speaker from ICAC, we might not choose to go that way. But given that it will cost us a lot more than \$4 per copy, we thought we may get some benefit out of it by promoting some of the themes of our business, so we use it in that way.

The third lesson, and I think probably the most significant in our case, which comes from our award last year is that, with all the change that has been going on we are one of the more pushy and aggressive businesses or organisations in our industry. We call ourselves "Innovators with Energy." Part of that change process is risk. In the past, our organisation got into some well meaning but unsuccessful business ventures involving activities outside core competencies, always dangerous when you are in a changing world. As a result of that, one of my first tasks as chief executive was to negotiate us out of a failed contract, something that cost us some money. This meant that we were faced with the option of how do you report on a failure and on a significant loss of money?

Perhaps in other times or in other places, it might have been tempting to bury information on that failed contract somewhere or to put it in the smallest possible print on the back pages of the report, but we did not. We reported it up front in an area where we talked about the pluses and the minuses for the year. We declared it openly and honestly. We balanced it up

against the many successes of the organisation and I think we have rightly been rewarded for that in the acknowledgment that came from the awards adjudicators. So that would be the third lesson that I would pass onto you. It is an opportunity to be honest, to demonstrate that we are all human, that even though it is a very professional document which demonstrates our accountability, we can also demonstrate our human frailty. Thank you.



**Dr Tim Smyth**  
**CEO, Hunter Area Health Service**

MR COCHRAN: The fourth member of our panel is Dr Tim Smyth, who is the CEO of the Hunter Area Health Service. He was appointed administrator of the Hunter Area Health Service on 2 August, 1991. He came from the position of the general manager of the St George Hospital and Community Health Service in Sydney.

Dr Smyth is aged 42, married with four children he has degrees in medicine, law and business administration. Would you please welcome Dr Tim Smyth.

DR SMYTH: By this time of the afternoon, you must have heard everything so I thought that I would give you my 15 tips on how we managed to get an award. I have been involved with three reports since joining the Hunter Valley Area Health Service. We got bronze, gold and silver and I think the judges were probably right: 1993-94 was not as good as 1992-93.

Point number one is to decide that you actually want to win an award, to actually go into it with the purpose of wanting to win and to make sure that the people involved in the preparation of the report understand that is what you want to do.

The second point is that you need to form a small committed team, and I agree with Bruce Buchanan's points on the importance of the CEO being involved in that process. The symbolism is important as well as ensuring that commitment and that desire to win.

The third point I would make is to choose some sort of theme, not in the sense of marketing and trying to dress everything up, but it gives some form of consistency to the report. That is why I have then said, as the fourth point, that choosing the photos to fit the theme is an important part of this process. It gives consistency plus it helps you think through what photos you actually want in the annual report as distinct from saying, "Okay, we have these photos in the top drawer," as Alex mentioned, "Let's stick them in the report." Also you need to be aware of the time it takes you to organise the photos. It does not have to be expensive, but there actually is a time scale in that and you actually plan and make sure you can tick them off, that you have got them or that you have arranged for somebody to take them.

The fifth point I make is that it is necessary to devise a layout in the sense of a format for a report. That does involve graphic design, but we did that in-house with our public affairs unit. By way of a quick little commercial, the Hunter Area Health Service is a public sector health service. It provides the full range of public sector health services to the people of the Hunter Valley, 500,000 people; with a tertiary referral community of 850,000 people; 9,000 plus on the payroll; 6,800 FTEs; operating budget, \$370m - that should give you an idea.

You must cover all the essential items and that is what I would regard as the check list. So you take the Treasury list of things that have to be in a report, you take the Department of Health list of what has to be in a report, you take Tony Harris's list and everyone else's list, tick them off and make sure that you can reference back to the contents list to see that you

actually have covered it; or if you have not covered it you must note it somewhere so that people can get it.

For example, we were told our policy on code of conduct and ethics had to be included in our report. Some area health services print the whole thing -three or four pages, boring as anything. We put a line in saying, "If you want our policy, this is the number to ring."

You must then allocate tasks so it is clear who is responsible for doing what. If you do not do that, it is very easy when preparing an annual report to run into major difficulties and you will run into them when you are trying to send the whole thing to the printer.

Proofreading the copy is very important not just in terms of grammar and making sure that Ken Baxter likes your English, but because it is amazing how you can get inconsistency through a report. It took ages in 1992-1993 to ensure that the same number of staff was reported in different sections of our report because the information came from different data sources. That was a revelation to me - we did not know how many staff members we had.

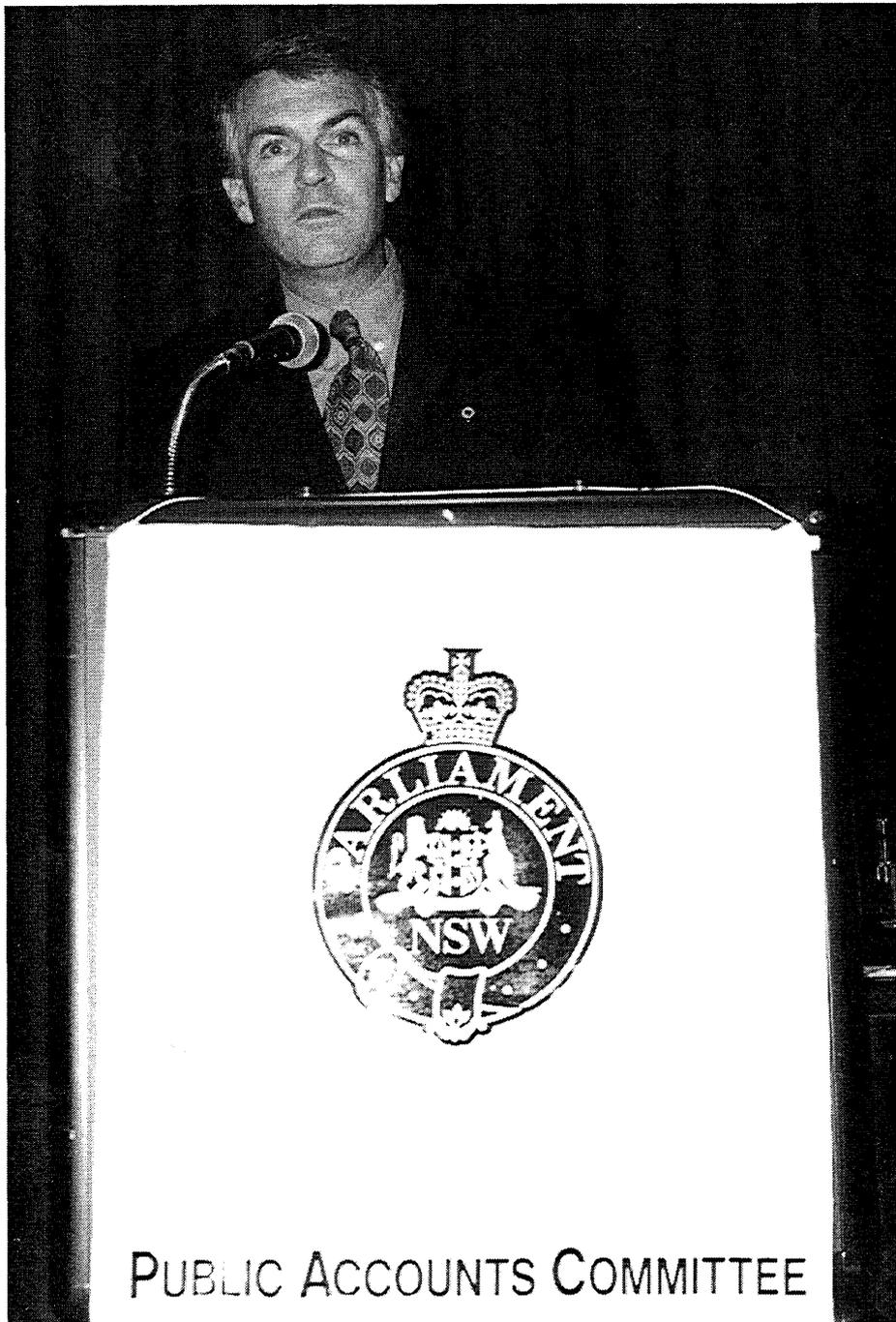
Point 10 - I think Bruce touched on this as well - is to produce a mock copy. It does not mean going to the printer; just make a double-sided photocopy and staple it along the edges. Actually seeing it means you get a feel for your report in the sense of will people like it and actually read it? Does it look interesting? It also allows you to see where the layout is perhaps not quite right or the sequence is not quite right. It is very important, rather than just seeing text and proofreading the text, that you are visually seeing it, and I emphasise that point.

Point 11 is bad luck for the private consultants in the audience. There is no need to go outside your organisation unless you really want to. I take Alex Walker's point in that if it is a major marketing tool and there is a cost benefit involved, maybe you do need to go outside. But for our report, particularly the gold-winning report, the only things we went outside for were the bromides for the photos and the actual printing; everything else we did in-house. We just used Pagemaker software.

Point 12 - in my case I report to a board - you have to make sure the board is happy. Leave that towards the end. There is less opportunity for people to change the report around. We have one board member who is very good at putting verbs into sentences where I have forgotten to put them in. I have found that the key section - the chairman's report or whatever it will be - is the one the board plays around with. They are aware of the rest of the report, but it is all done; in fact, they are quite comfortable with that, but you need to make sure that your board will be comfortable with that.

Points 13 and 14 are proofread and proofread. That is the third time I have mentioned that. Point 15 is just do something different each year.

MR COCHRAN: Thanks very much, Tim. I will now ask you to join the other members of the panel on the stage.



**Mr John Raynor**  
**General Manager, Sutherland Shire Council**

MR COCHRAN: We will now call on our final panellist who is Mr John Rayner, General Manager, of the Sutherland Shire Council. He has been working in local government for some 30 years including in the Mudgee area and in Lithgow. He was appointed to the position of Shire Clerk with Sutherland Shire Council when he joined the organisation in January 1982. As part of the restructure, he was appointed General Manager/Shire Clerk in April 1989. Under the new Local Government Act, he was appointed General Manager in 1993. The organisation continues to be at the forefront of local government reform and pursues an innovative and modern management approach. Please welcome John Rayner.

MR RAYNER (General Manager, Sutherland Shire Council): Thanks very much for that introduction. As Bruce Buchanan said earlier, there was not much left to say; now there is even less. I guess I could have used the theme of today's seminar "The best is yet to come" when Sutherland Shire Council produced its first annual report back in 1983. At that time there was no legal requirement on local government to produce a report. However, I was a firm believer in annual reporting and I could also see that council needed to respond to the increasing trend towards accountability, particularly in the public sector.

"Report 83" was a very important document and, by design, it referred to our achievements, our performance and our finances for the year 1982 and it led us into outlining our desires for future years. It was probably a first for local government. At that time many councils had produced reports, documents or publications of some kind, but there was confusion as to whether or not they were promotional/tourism publications or whether they were in fact annual reports. Maybe that is still the case in many areas.

We were fairly proud of our first effort. I thought we must have done exceptionally well when the then member for Cronulla and chair of the Public Accounts Committee, the Hon Mike Egan, was reported in the local paper as praising the efforts of the Sutherland Shire Council in its first annual report and actually directed members of the Royal Institute of Public Administration to that report. My impression that this long-time critic of the council might have changed his attitude towards us was brought back to reality fairly quickly when Mike wrote to me saying:

*"In case you think I have gone "bonkers," I thought I should hasten to assure you that the comments attributed to me are not precisely as I stated them. Whilst I believe the production of any sort of annual report is a welcome first step, I certainly don't believe that the Council's report is a top effort. It is certainly first rate in terms of presentation and layout but is far from being an adequate and comprehensive account of Council's objectives, activities and achievements."*

He also went on to say a few more things about the council, which were not all that complimentary, but I did agree with him that we had a long way to go. However, we were also committed to improving year by year, and that was the start.

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I think the exercise was also worthwhile in identifying a person in the organisation who would be able to lead that team - that concept was referred to earlier in the session - and who would be able to pull the report together.

With our next report, "Report 84" - don't worry; I am not going to go through our reports year by year - firstly, we took a decision that all residents should be aware of the existence of the report and that they should have access to it. Secondly, we embarked on the disclosure path. In a summary that we sent out, we told the community not only the good things about the organisation and what we were doing but also about the issues that we were facing. We felt it very important that our community should share our concerns and help us solve problems.

The main report, goes out to schools and community organisations. It goes to libraries, chambers of commerce and people we do business with. The production of an outline, which is now referred to as a short form report, is certainly in accord with the approach that is now being pursued by the Federal Attorney-General, that companies should be providing shareholders with a concise financial report or allowing them to have access to the more detailed report.

On the statistics: we produce about 5,000 copies of the full form report. We have about 68,000 residential properties in our area, 200,000 people, and we provide about 70,000 copies of the summary of the short form report.

I have found that our annual report is a very important means of maintaining contact with our community, of reporting back, advising on programs for the future, telling the community who the councillors are and who the senior staff are and, as I mentioned earlier, it is a means of sharing our concerns.

One of the reasons I am here today is because our council has received recognition for its annual reports. We have achieved seven gold awards in the past seven years and we have also been fortunate to be recognised through some local government awards.

If I can sidetrack for a moment, it wasn't until 1985 that the Local Government Act was amended to make it mandatory for councils to produce an annual report. Then in 1993, with the introduction of the new Local Government Act, it has become more prescriptive and the report is linked with the general thrust of accountability and transparency requirements that we have under our new legislation.

In local government, we have to be very open. Our council and committee meetings are held and our decisions are made in open session and any report or recommendation made by a staff member will be publicly debated, so there is no way that we can sanitise our reports. The annual report is part of the consultation and accountability requirements associated with management plans and with reporting back to the community on the progress that we make against the targets we set as endorsed by our community each year.

Achieving excellence in annual reporting has been the council's aim. I must say that desire has been shared by senior staff in the organisation. Without that commitment and without that pride in what you are doing, there is no way that you can reach that standard of reporting.

Our extended team - and yes, we did go outside includes a Sutherland-based graphics firm called MAD Advertising Pty Limited, and another local firm of printers, Nadley Press. We have developed a very strong three-way relationship. That helps with developing the structure and the theme, and assists us in meeting our deadlines. An enormous amount of cooperation is required to make sure deadlines are met.

As I mentioned, Sutherland Shire Council is a large organisation, particularly in local government terms. We have an annual budget of about \$130m. We employ around about 1,000 people. We also look after an area which is extremely parochial, and between the council and the community there is a shared vision for the Sutherland Shire to maintain its great environment and also to improve lifestyles.

Our reports over the years, whilst having certain uniqueness and being innovative in approach, have very closely followed the annual report awards criteria. I will not go through those - anyone can get access to the criteria - and as changes occur and the directions are set, you need to move your annual report along at the same time.

We must ensure that we are honest in our reporting, particularly in regard to performance issues. We are working hard to produce more meaningful performance indicators that link back into our performance-reporting obligations. Here, I think it is very important for your organisation to ensure that its systems are such that you can easily extract meaningful data from the various systems that you have in place within your organisation.

Accuracy, relevance and the corporate perspective being reflected in information are important. As Bruce has said, the CEO should be involved in setting the direction and the structure for the report. I always read the concluding drafts and on occasions the mayor has assisted. The mayor, of course, will finalise and endorse his or her message in the annual report. The report does not go to the council for endorsement. Reading of the report by the CEO is not a burden. You need to read the report at some time anyway, and you need to ensure that the corporate message is correct, the information is relevant, that it is understandable and, that as far as possible, you have avoided any traps. We also try to make the report reader-friendly. We use plain English and we address the issues in which the stakeholders will be interested.

In the report for 1994 we used a theme which was linked into the Year of the Family. That theme was featured on the cover. It depicted the family unit and involved one of our employees. On each page of the report, there was reference to family lifestyle activities and we also made mention of the fact that, in that Year of the Family, the council undertook

certain initiatives. I included in my report all of those things that the council did to assist employees in meeting their family needs.

If you are going to allocate time and resources to an annual report, there must be some return. That return, as I see it, comes from improved communication with your stakeholders and the creation of better understanding of your organisation. In my case, that means the residents and ratepayers. The return come from better understanding internally of what the organisation is about corporately. It is very important, if your organisation undertakes a wide range of services, that people throughout your organisation have an appreciation and understanding of how all the pieces fit together. We provide each employee with a copy of the report. Returns come from an acceptance that your organisation is open and transparent and from the establishment of the confidence of those with whom you may wish to do business that your organisation is indeed professional.

It is also important to have an accurate record which will have historic and research value. Through annual reporting in the years to come, people will be able to trace in a very readable and easy-to-access form what the Sutherland Shire Council has achieved, particularly from 1983.

To conclude, to achieve excellence in annual reporting, there must be a commitment particularly from senior staff. It is important that legislative requirements, community expectations and the ARA criteria are pursued. From a public sector point of view, we must be open and we must report to our community and/or our stakeholders on how we are performing - and the annual report provides the means. The annual report also projects an image of your organisation, how it is run, how it addresses issues and whether you are meeting the challenges of the 1990s. We also have awards, which these days allow us to benchmark against the best. Thank you very much.

MR COCHRAN: Thanks, John Rayner, and thanks to the other panellists and the audience for being so attentive during that period. I will now throw this segment open to discussion with the five panellists. I might be so bold as to ask the first question, and whoever wishes to answer it may answer it.

I was interested in a remark that was made by Tony Harris that most annual reports are next to useless. I would like to know, from your vast experience and the fact that you are award winners or those who make decisions about award winners, what are the most significant factors that make the difference between annual reports that are next to useless and those that are award winners?

MR BUCHANAN: We start out with the expectation that people will read the report with a view to questioning anything that is included in it. I particularly take into account institutions such as estimates Committees, because it is only a matter of days after an annual report is made available to the responsible Minister, in many cases, that the Estimates Committee is then in a position to really scrutinise the agency in the couple of hours in which

it gets a chance to do that. Estimates Committees have precious little documentation to consider when they look at agencies. The annual report is one document that gives them an opportunity to put us through the hoops.

The moment you look at it from that perspective, you up the stakes for yourself in terms of making your report a greater accountability document. It is because they become more accountable that documents such as annual reports become more useful and increase their worth, their value, to the external readers.

MR COCHRAN: Does anybody else have any comment on that question?

MR WALKER: As you move from the public sector more into the commercial world, you can regard an annual report as either a burden or an opportunity. If you choose to regard it as a burden, you can take the minimalist approach and meet the minimum standards of disclosure, print it on toilet paper, et cetera; or you can use it as an opportunity, which I believe we will continue to do, and hence regard it as a chance to influence perceptions of a wide group of stakeholders.

That is why, picking up on Alison Crook's theme, I will take exception to that. It seems to me that if you are going to influence perceptions, you want access to better communication media than some spreadsheets and numerical data. There is a great deal of opportunity in the written word, graphic material and so forth. If you choose to use annual reports in that way, we should have recourse to that.

MR COCHRAN: Are there any further comments?

DR SMYTH: A general comment - it is a matter of horses for courses. It depends on what the reporting entity is. With health services, we are not a central agency, although we report to the Department of health. The major interest in our report is the staff and the local community. We print 1,500 copies, and the Newcastle Herald, the local members of Parliament and our staff are the major users of it.

Another point I make from my perspective of making reports more useful is that the Government financial statistics and accrual accounting now mean that the financial statements in our report are useless. There are so many non-cash items in them that it is impossible to compare properly from year to year. I have discussed that with the audit office.

In Health Services, we must include what are called special purpose and trust funds, which is fine, but they are all consolidated into the one statement, so we report not only the money that we get from the Government but also the money that a little old lady left in a will to us, the National Health and Medical Research grant and those sorts of things. So the movements in it are largely artificial. I am looking forward to next year's annual report, in which we will report that we have sold a building for \$1.7m that we have in our accounts as costing \$12m.

MR RAYNER: It is relevant in getting close to the community and telling the community the range of services that you provide and the range of issues that you face. It is also handy when we get the question - "What do I get for my rates?" That happens around this time of year. People always say, "You only pick up the garbage once a week, so why do I pay \$1,000 in rates?" Quite a lot of people can be satisfied by receiving a copy of an annual report, which takes them through the whole diverse range of activities that we are involved in. They get a better appreciation and understanding of what your businesses all about. Annual reports are ideal for school projects and having people understand what local government is all about.

MR COCHRAN: I was going to say justifying your existence, but I won't. Are there any other questions of the panellists, please?

MR HANNAH: Ross Hannah, from the Department of Corrective Services. My question is principally to Dr Smyth, though not necessarily exclusively. I know nothing about the Hunter Area Health Service. I chose to put it to you because I thought you fitted the example best. Tony Harris's remarks interested a lot of us here, particularly those of us whose reports were to hand.

I wonder what your thoughts would be on the type of objective assessment of your key performance indicators in an area such as health if, for example, the final result of your service is good health and wellbeing of the community. Perhaps the right place to spend money is not the sorts of places you are now spending it; perhaps better water or something like that is more important than hospitals.

In any case, it is something that is against the orthodoxy, the prevailing thought, and also raises questions of Government investment, or lack of it, in infrastructure. Your hospital performance may be highly dependent on the level of investment in equipment, buildings and that type of thing. What thoughts do you have on that sort of approach in an agency such as yours that could be quite sensitive to not so much what you do but to things such as central policies, political processes and central agency investment decisions?

DR SMYTH: First of all, it is a very real issue for health. The question for any human service, community service, type organisation is: What are the performance indicators? We are moving very slowly compared with other industries through the cycle of measuring inputs to measuring outputs and then trying to move to measuring outcomes.

At the moment, our traditional performance indicators are how many people we have treated in the hospital and how many people have presented to a community health centre. We report things we can count, such as how many teeth have been filled. That is an advance on reporting just how many staff we had. In the old reports, you could find out how much we spent on cheese and milk. They were very detailed. In accrual accounting, we have lost that detail.

The second point is that part of our whole corporate plan and one of our five key themes is changing the focus of health care delivery; it is to get across to our staff and the community that there is more to health than hospitals. There are other determinants of health. Our mission statement is to improve the health of the people of the Hunter, so we are starting to pay greater attention to that issue.

The third thing is that not only do we share that view, the Treasury shares the same view. Health is a quarter of the State expenditure, including the Commonwealth funding that comes to the State. The Treasury is rightly now starting to ask questions about what value does Government get for its money.

I know Mr Baxter has different views about how to get more value out of it from south of the Murray, but we won't go into that. We have a new program of reporting structure that came into effect in July, so we are starting to move that way. However, it is very true that our current key performance indicators are still dollars per bed, length of stay and how many patients we have treated. They are very much things we can count, not very much about the quality of life or the health status of the population, but I am trying to do that.

MR COCHRAN: More questions, please?

MR COLLINS: Paul Collins, from Business and Regional Development. Can I ask the award winners whether and how they addressed the issue of finding out from their readers whether they were meeting the readers' expectations. They are obviously successful at meeting the requirements of the award associations and so on. I found that a very difficult question in responding to the committee in our submission.

MR BUCHANAN: In our case, in finding out what our readership - and by and large that will be our client base - wants, the annual report is just one part of that. We conduct fairly regular surveys of segments of our client base throughout the year to find out what they want from us. From there, it becomes a reasonably simple task to provide in an annual report the sort of information they need, because they want to assess how well we are doing against what they want from us.

The same thing can be said once you go beyond the strict client base to other stakeholders. As a result of surveying staff on an annual basis, we know where we are not doing well enough and where they have expectations of improvement. The annual report provides an opportunity for reporting back, similarly to our political masters, both Government and Opposition.

It is fairly clear, from the sorts of interactions we have with our politicians through the year, where they believe we are falling short, where they need further information and where they want to know how we will redress things that are wrong in the State tax administration. The annual report provides an opportunity to report on what we have done or intend to do to

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fix the deficiencies. So we use the inputs during the year from a variety of sources to provide some focus, at least in part, to the annual report.

DR SMYTH: It is a good question, and it is something I jotted down earlier in the day. We rely on informal feedback, such as staff of the Department of Health saying that it was a good report and asking how many we have left over about three or four month slater. I had to hunt around to find a gold-winning report to bring to the Public Accounts Committee. We still have some bronze-winning reports left from 1991-92, and we still have some left from 1993-94. That is an informal indicator, but we have not actually done a survey of people that we know who use the report to see whether they read it and what they would like in it. It is a good question.

MR RAYNER: We did a survey in 1992. It was partly random telephone and we produced a questionnaire, which was included in the back of the report. The response generally was positive in terms of information and presentation, and through the telephone survey, we found that there was a reasonably high awareness of the existence of the report. We have not followed up on it. It is something that should be done more often.

MR COCHRAN: Any final questions?

MR McMAHON: Patrick McMahon, from New South Wales Fisheries. Comments have been made during the day that the annual reports are of a low standard or next to useless; they are a document prepared by agencies within a short time frame to meet the statutory obligation. However, it seems to me that annual reports are an integral part of the corporate planning and performance evaluation process.

I am interested in particular to hear from the speakers on the floor who represent agencies that have been awarded for annual reports. Maybe those awards are to do with an annual report as a document. I am more interested in the annual report as being part of that integrated process. Do you have any comments to make in terms of your own agencies adopting that approach? That is, is it the formal mechanism by which you report on your performance to your stakeholders, and if so, is it formally integrated into your corporate planning and evaluation process throughout the year so that the production of the annual report is a natural emanation of that process rather than something you start to think about around June?

MR PROSSER: The basic philosophy that we have is that the annual report should form part of the overall plan. The basic structure of our criteria is fulfilling objectives, vision statements, performance measures and the future. So we look for who you are, what you aim to do, your objective, some details of the strategies you had in place to achieve the objectives and some sort of measurement of the result. That can be good or bad. You can have a very bad year and still be successful in our award if you disclose it properly. Similarly, you could have a very good year and not be successful because you did not disclose it properly.

We like to see it as the combined process, and the report is just one mechanism for documenting the results. It should show the whole cycle - what you're trying to do, how you went about doing it, what the results were and what you plan to do next year. You can change part of the process if the objectives were not appropriate, the standards you aimed for were not appropriate, or your strategies were not appropriate.

You need to constantly monitor each of those, and the annual report is a mechanism for reporting the whole process, not just a point in time or a period in time. It should be a document that is not only historical but also looks to the future. It needs to realistically look into the future, not make very broad and general comments, which many reports do.

DR SMYTH: We are moving into that cycle in the sense that we now have a corporate plan. I will give you some background. When I was sent to Newcastle to clean up the mess, I had to close a hospital, pull back expenditure by \$35m, borrow \$20m from the Department of Health, open a new hospital, and 10 percent of our staff went on a voluntary redundancy program. You can imagine that 1991-92 was a somewhat difficult year.

Now we have a corporate plan for the future and our report this year will be very much based on: We now have a plan; what are we doing about that plan? I hope that will then become integrated into that process. However, I emphasise that an annual report is only one mechanism of reporting on performance and reporting on the organisation. There are many other ways of doing it. I agree with you; it should not be left to this one document. That is part of the problem. Everybody is trying to make the annual report mean everything, and out of that, nobody is satisfied. We are trying to put too much on to one document or one process to meet many ends.

MR COCHRAN: Time is beating us, so I will wrap up now. Before making a few remarks in closing, I ask those of you who have not completed your questionnaires to do that and deposit them outside as you leave. I have enjoyed the discussion with the panel and the remarks that they have passed. I ask you all to express your thanks to the five panellists.

In closing, I believe that today has been a success. The reasons for that success are that we set ourselves an objective, which was followed up with well-planned and well-executed presentation by the speakers and that much planning went into it by the Public Accounts Committee staff. I particularly pay tribute to Patricia Azarias, David Blunt, John Lynas and Ian Thackeray. Thanks to all those members of the PAC staff who have put in an enormous amount of work in preparation for today.

We had a relevant subject which the audience was prepared to participate in and showed interest in. They were attentive and asked some good questions. In my view, it was a valuable day to all of us who had the opportunity to attend. It is rewarding being a member of the Public Accounts Committee, which is a valuable institution within the Parliament. It is one of the very few committees that operate on a bipartisan basis. Because of that, we have established credibility both inside and outside the House. We set ourselves the task of

***Public Accounts Committee***

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objective analysis both in the process of analysis and in reporting. We believe that we undertake our role in the Parliament in the best interests of the public and those who are the consumers of our reports.

Finally, I thank all of our speakers for their presentations today. I thank the audience for your attendance. I will now read what Peter Walsh had to say about us.

# APPENDIX ONE

Written Seminar Papers provided by the following speakers:

- ▶ Mr Michael Lambert
- ▶ Mr Chris Warrell
- ▶ Associate Professor James Guthrie
- ▶ Mr Tony Harris
- ▶ Dr Russell Cope

**PUBLIC ACCOUNTS COMMITTEE SEMINAR  
ON  
ANNUAL REPORTING IN THE  
NSW PUBLIC SECTOR**

**The New Financial and Annual  
Reporting Legislation  
by  
Michael Lambert, Secretary NSW Treasury**

**9 August 1995 Parliament House**

## **THE NEW FINANCIAL AND ANNUAL REPORTING LEGISLATION**

### **1. INTRODUCTION**

One of the major initiatives of the present Government is to replace the existing financial and annual reporting Acts with modern legislation which reflects the current financial management and accountability framework in New South Wales. This is part of the consolidation phase of the reform program.

As you may recall, the existing legislation was introduced some 10 years ago in the mid 1980's within an era where the primary focus was on financial compliance. The plan is to have the new legislation commencing from 1 July 1996 following an extensive process of consultation with all interested parties.

At the outset, it should be pointed out that the introduction of the new legislation will not require a wholesale change to existing financial management practices come 1 July 1996. The new legislation is only designed to support the public sector reforms that have occurred over the last decade. It will enshrine in law those good financial management and accountability principles that are currently in place in agencies and add new ones.

The new legislation will be consistent with the broad strategic base that has been established for on-going reforms. It will create a legal framework which will more readily accommodate shifts in emphasis in financial management in the future. In allowing for the effects of future developments to be more easily assimilated into the framework, the new legislation is intended to provide a platform that will meet the financial and resource management challenges facing the New South Wales Public Sector into the twenty-first century.

### **2. PURPOSE OF THE LEGISLATIVE REVIEW**

As a result of the extensive program of financial and resource management reform, many parts of the Public Finance and Audit Act no longer reflect current practices. The purpose of the fundamental review is to create a totally new piece of legislation (in the form of an omnibus Act) which will appropriately support the financial management and accountability framework now existing in New South Wales. The legislation will also encompass the objectives and philosophy of the reform program.

In redrafting the legislation, the opportunity will be taken to examine the existing provisions to bring them into line with modern financial management, public finance, accountability, financial reporting and auditing standards. Those areas which have been identified for a thorough review are: financial management, the budget process,

Parliamentary appropriation and control, financial reporting, annual reporting and auditing.

It is also intended that, in place of the present somewhat prescriptive and detailed approach, the new Act will be written, wherever possible, in terms of broad principles to be followed. This will be supported by Regulations and Statements of Best Practice issued by the Treasurer. "Plain English" will be used in the drafting process.

At present, the annual reporting requirements are contained in the Annual Reports (Statutory Bodies) Act and the Annual Reports (Departments) Act. These two Acts will be combined and form part of the new omnibus legislation which will also incorporate the Public Authorities (Financial Arrangements) Act.

### 3. OBJECTIVES AND PRINCIPLES OF FINANCIAL MANAGEMENT

It is intended that the Act will provide the means (and catalyst) to achieve the following three broad objectives of financial management in New South Wales:

- to authorise the allocation of resources and identify the level of resources to be applied to the provision of services (**resource allocation**);
- to provide the framework for the efficient and effective management of resources (**resource management**); and
- to ensure proper accountability for compliance and performance achieved (**accountability**).

In redrafting the legislation, due regard will be given to the four key principles that underlie the financial management reform program.

- **financial accountability and transparency:** Financial accountability is the rule requiring agencies and managers to fully disclose and be held accountable for the financial performance achieved relative to established financial targets. Transparency facilitates accountability by making explicit the financial position and by identifying the extent of cross-subsidies between activities and programs.
- **financial integrity:** requires consistency in the presentation of financial information and conformity with generally accepted accounting and statistical standards in the preparation and presentation of financial information.
- **financial responsibility and equity:** requires the establishment of a reasonable balance between taxes, user charges and borrowings so as to achieve a prudent financial position over time taking into account intergenerational equity.

- **devolution:** To encourage economic, efficient and effective management of resources, it is important that accountability and authority be devolved to the lowest level consistent with effective performance.

#### **4. CONCEPTUAL FRAMEWORK OF NEW LEGISLATION**

The conceptual framework for the new legislation will be underpinned by the following **two key themes**:

- a financial management and accountability cycle encompassing:
  - the objectives and standards of the agency;
  - resource allocation: eg the appropriation process;
  - resource management;
  - external reporting based on generally accepted accounting, public finance and accountability standards; and
  - statutory audit and Parliamentary review.
- an input-output-outcome chain linking resource allocation and management with performance and results achieved. (Lines of responsibility and accountability for the use of public resources will be clearly established).

#### **5. SCOPE AND APPLICATION OF NEW LEGISLATION**

The new Act will be an omnibus piece of legislation covering all the existing financial and annual reporting legislation administered by the Treasury. They are the Public Finance and Audit Act, the Public Authorities (Financial Arrangements) Act, the Annual Reports (Statutory Bodies) Act and the Annual Reports (Departments) Act.

In the case of the Public Finance and Audit Act, part of the review will be directed at ensuring that the coverage of the Act is appropriate - ie that all agencies which should be subject to the Act are covered. For example, Area Health Services are not included at present and the Auditor-General audits their annual accounts by special invitation of the Treasurer. Given the significant level of budget support, there is a strong case for bringing them within the scope of the legislation.

The new Act will be an exclusive code on financial management and accountability for the whole of the NSW Public Sector. If there is an inconsistency between the Act and another State Act, the provisions of the Act will prevail. This approach will also

minimise duplication of legislative requirements and allow changes to be effected uniformly and quickly.

## **6. STRUCTURE OF NEW LEGISLATION**

The new omnibus legislation will comprise three levels of requirements in hierarchical order.

- The Act itself will deal with general concepts and principles covering the whole financial management and accountability process.
- The Regulations will establish specific requirements such as the timing of the preparation and tabling of accounts and annual reports, form and content of accounts disclosure requirements for annual reporting purposes, etc.
- Statements of Best Practice will be issued to cover, for example, the different aspects of the financial management process and accounting and annual reporting matters.

## **7. PROPOSALS FOR NEW LEGISLATION**

An interdepartmental Working Party has been established to develop the new legislation. It includes representatives from the Premier's Department, the Audit Office and major line agencies.

The Working Party is currently in the process of drafting a consultative document for issue after a lengthy period of extensive research and deliberation. Without pre-empting the final form of the consultative document, I would like to briefly comment on some of the new matters which are likely to be included in that document when it is released.

### **Classification of Agencies**

In the June 1995 Financial Statement, the Government announced a decision to adopt the Australian Bureau of Statistics (ABS) classification framework for the NSW Public Sector comprising three components namely the General Government Sector, the Public Trading Enterprise Sector and the Public Financial Institution Sector. The General Government Sector will be disaggregated into two sub-categories:

- General Government agencies funded by appropriation (ie the Budget Sector); and
- General Government agencies not funded by appropriation (ie the Non-Budget Sector).

The State Budget, the appropriation process and the within-year reporting in the future will cover transactions of all General Government Sector agencies with some minor exceptions. The benefits of using the General Government Sector to determine the boundary of the State Budget are two fold:

- It adopts externally determined standards and hence protect the integrity of the Budget in terms of coverage of agencies and transactions; and
- It increases the focus on regulatory agencies in the Non-Budget General Government Sector which are not subject to either market mechanisms or a commercial framework.

The adoption of the new classification framework will also necessitate, for example, changes to the nature and scope of the financial reporting and performance monitoring requirements. All public sector agencies in New South Wales will be scheduled in the Act in accordance with the new classification scheme.

### **Corporate Governance**

The principles of corporate governance have now been widely adopted in the corporate sector both locally and overseas. There is no reason why those principles ought not be embraced by the Public Sector as well subject to appropriate adaptations.

It is therefore intended that the new legislation will provide a clear specification of the roles and functions of the key persons and bodies within the financial management and accountability framework of New South Wales and their interrelationships with each other. Those persons and bodies include the Parliament, the Executive Government, Portfolio Ministers, the Treasurer, Governing Boards, Chief Executive Officers, the Auditor-General and the Public Accounts Committee.

The clarification of the respective roles and the "chain of accountability" is aimed to provide a clearly articulated governance framework within which the specific legislative provisions will be developed.

### **Parliamentary Appropriation and Control**

The following are some of the proposals which are likely to be included in the consultative document:

- **Definition of Parliamentary Control Parameters for General Government Sector Agencies**

It is proposed that the key control parameters in the future be "net cost of services" and Consolidated Fund cash support (divided between recurrent allocation, capital allocation and financing transactions).

- Clarification of the Relation between Appropriations, Programs and Outputs

The appropriation process, as a control instrument, will be tied to those agency-level parameters as referred to above. However, for public information purposes, appropriation will be divided between programs which are linked to specific outputs/outcomes. This is to facilitate the introduction of contractual budgeting. The outputs/outcomes of programs will be identified and program performance and Budget funding will be linked.

- Authorisation for Variance in Appropriation

Parliamentary approval will be sought for all additional funding required after the enactment of the initial Appropriation Bill. This will be done by way of a subsequent Appropriation Bill.

- Transfer of Funding between Years

Broad principles will be established to allow agencies to carry forward savings from Parliamentary appropriations or borrow funding from future years (global/target budgeting).

- Form of Estimates

The general format of budget estimates will be covered in the Act whilst the details of the content will be dealt with in the Regulations. There will be a specific requirement for the Budget estimates to be prepared on the Government Finance Statistics basis and in accordance with accounting standards and generally accepted accounting principles. Any deviations from the standards or principles are to be reported to Parliament by the Treasurer.

More comprehensive cash and accrual information will be included in the Budget Papers. The ex ante information should enable Parliament to compare actual performance with planned performance and therefore obtain a better view of each agency.

Those provisions in the General Government Debt Elimination Bill 1995 relating to Budget presentation and reporting will also be incorporated into the omnibus legislation.

### **Financial Reporting Framework**

The new legislation will bring together the various existing financial reporting requirements within a comprehensive, integrated framework and add new ones. It will identify all the categories of reporting entities within the New South Wales Public

Sector. Reporting entities are those entities which will be required to prepare and publish financial statements in accordance with the Act and Regulations.

The financial statements to be published at the whole-of-government level are the annual and six monthly consolidated financial statements for the State Public Sector, the General Government Sector and the Public Trading Enterprise Sector; the annual and six monthly Consolidated fund reporting entity financial statements; and the monthly Treasurer's Statements on budget results. Disaggregated information will be published in the General Government Sector consolidated statements on the budget and non-budget dependent agencies as separate groups. A reconciliation between the accrual and GFS based operating results will be provided in the financial statements.

In addition, the Treasurer will be required to release publicly a statement in February 1996 and in February of each year after 1996, containing the latest economic and budget projections for the year and an explanation for any variations from the budget time projections.

There will be a single set of "core" minimum disclosure requirements for the whole-of-government and agencies. Additional requirements will be specified for different categories of agencies where it is warranted by reason of the nature of their operations (ie the concept of "differential reporting").

Agencies in the General Government Sector and Public Trading Enterprises will be required by the Act to report to the Treasurer (via the Treasury) at specified intervals under the performance monitoring regime. Monthly reports from budget dependent agencies in the General Government Sector are to be sent to the Treasury to enable the Treasurer to meet his obligation in issuing a monthly statement on the budget results.

Where there is a departure from accounting standards/generally accepted accounting principles or GFS standards, a report will be prepared by the Treasurer for tabling in Parliament within 14 days of making the decision setting out the details of, and the reasons for, the departure.

The Act will also include a specific provision requiring each agency to establish an appropriate information system to facilitate internal management reporting to monitor financial performance and compliance as well as external statutory reporting (including reporting to the Treasury).

### **Annual Reporting Framework**

The annual reporting provisions will be comprehensively reviewed to focus on informing Parliament on what an agency planned to achieve, what it has in fact achieved and what it expects to achieve in the future. The information provided must be relevant to the assessment of accountability and performance under the new financial management regime.

There will be a single set of "core" reporting requirements covering all agencies. It is proposed that the chief executive of a department and the chief executive and a board member of a statutory body be required to sign a statement, for inclusion in the annual report, indicating whether a system of internal control was in place and operated satisfactorily during the year.

The recommendations made by the Public Accounts Committee following the completion of the current inquiry into annual reporting will be taken into account before the proposals for this particular area are finalised.

### **External Auditing**

The significant changes within the NSW Public Sector in the last 10 years have given rise to a need to reassess the accountability relationships between the agencies on the one hand and the Executive Government and Parliament on the other. As the Auditor-General is an important link in the "accountability chain", his role and functions therefore also need to be reviewed.

It is intended that the new legislation will clearly set out the powers, responsibilities and rights of the Auditor-General and his relationship with Parliament and the Executive Government. The provisions will be aimed at clarifying and strengthening the Auditor-General's mandate with respect to his financial and performance audits with the focus being on audit goals and outcomes rather than the process. The existing legislation will be rationalised into a more streamlined set of provisions.

A number of issues are currently under consideration by the Working Party including:

- the nature and scope of financial and performance audits;
- the desirability of subjecting the Auditor-General and his Office to an oversight by the Public Accounts Committee (similar to ICAC and the Ombudsman) particularly with respect to the funding and conduct of performance audits;
- the ability of the Auditor-General to undertake audits by arrangement as well as other audit related work;
- procedures regarding the tabling of audit reports in Parliament; and
- the provision of copies of draft audit reports to interested parties for comment prior to tabling in Parliament.

The Public Accounts Committee is currently conducting a peer review of the Audit Office under the Public Finance and Audit Act. I understand that the review will be focusing on some of the issues identified above. The findings and the views of the reviewer will certainly be helpful in formulating any proposals for change.

### **Public Accounts Committee**

The existing legislative provisions relating to the constitution, role and functions of the Public Accounts Committee have yet to be fully reviewed. The Committee, however, has put forward a number of proposals to the Working Party for consideration including:

- the incorporation of the objectives of the Committee in the new Act viz:
  - to increase the efficiency and effectiveness with which government policy is implemented;
  - to increase public sector awareness of the need to be efficient, effective and accountable for its operations; and
  - to increase the awareness and understanding of Parliamentarians and members of the public of the financial and related operations of government.
- a requirement for the Government to respond to the recommendations of the Committee within six months of the tabling of the report with the Committee also having the power to examine and inquire into such government response; and
- clarification of certain of the powers of the PAC.

### **8. CONCLUSION**

As I indicated earlier, the consultative document will be issued in September 1995. I look forward to receiving your views and comments on the issues raised in the document and particularly the new principles and requirements which are proposed to be incorporated in the omnibus legislation.

In parallel with the implementation of the new legislation next year, the Treasury plans to conduct an awareness and training program for agencies. A phased approach will be adopted so that agencies will have time to grasp and understand the implications of the new Act and to implement the necessary changes for a smooth transition.

Phase 1 will be a general awareness program which will highlight the main principles of the new Acts. Phase 2 will be a comprehensive education program which covers the technical details of the Regulations and Best Practice Guidelines.

The present legislation was developed over 10 years ago. Indeed it has stood the test of time. The new omnibus legislation, when enacted, will represent a significant event in the New South Wales public sector management history.

**ANNUAL REPORTING  
IN THE PUBLIC AND PRIVATE SECTORS**

*A paper to be presented by*

*Chris Warrell  
Senior Adviser Accounting  
Australian Stock Exchange Limited*

*at a Public Seminar entitled*

**ANNUAL REPORTING  
IN THE NSW PUBLIC SECTOR**

*The Best is Yet to Come*

*Wednesday 9 August 1995*

## ANNUAL REPORTING IN THE PUBLIC AND PRIVATE SECTORS

In the Issues Paper on Annual Reports distributed by the NSW Public Accounts Committee in May 1995, the introduction to Issue 3 reads as follows:

*The NSW Treasury has indicated that in redrafting the Public Finance and Audit Act it will:*

- *bring all current provisions into line with contemporary public finance, accountability, financial reporting and auditing standards;*
- *re-orient the Act away from its somewhat prescriptive and detailed approach to one written, wherever possible, in broad terms with statements of principles, and supported by statements of best principles issued by the Treasurer; and*
- *adopt a Plain English approach. (Office of Financial Management 1993-94 Annual Report, p.28)*

Despite the popularity of adopting a controversial approach as a matter of course in an address of this sort, I must confess to finding little in the above which would justify such a course of action. On the contrary, I must express strong support for all three of the proposed Treasury changes, with the only possible qualification being to the second point. I shall come back to this minor qualification later.

Dealing with the final point first, the adoption of a plain English approach makes a great deal of sense for all our legislation, ASX Listing Rules, accounting standards, etc., provided the lawyers, accountants, Treasury officials, etc., remain satisfied that the original intent of the material is retained and clear.

I believe that the first point must also receive our support, even though you may have reservations about some of the accounting standards and the appropriateness of their application in certain circumstances. You will also no doubt realise the difficulties of bringing procedures "into line with contemporary public finance, accountability, financial reporting and auditing standards" when these various standards are contradictory on occasions. Despite this "incompatibility of temperament", may I suggest that it is not grounds for divorce, but merely reason to adopt the most sensible reconciliation possible. In order to explain this point I have taken the following material (occupying the next five pages) from an as yet unpublished monograph I have written for the Australian Accounting Research Foundation on *Measurement in Accounting*, although I have edited it and added a little additional material.

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## THE OBJECTIVE OF GENERAL PURPOSE FINANCIAL REPORTING

The following extracts from the concepts statements provide us with our broad objective. This is our target. It will be modified by constraints imposed by the qualitative characteristics but will always form our goal, however unattainable that goal may be if viewed in any complete sense. It is important to remember that, by having such a target and recognizing why we are unable to ever "hit the bullseye", we shall appreciate far more thoroughly than we do at present the meaning and limitations of the reports we prepare.

The following is taken from SAC 1, *Definition of the Reporting Entity*:

"6 For the purposes of this Statement: . . .

**"general purpose financial report"** means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs. . . .

24 For entities which operate in the public sector, the implications . . . are that most government departments and statutory authorities will be reporting entities. . . ."

The objective of general purpose financial reports and the required qualities of the information to be disclosed are then set out in SAC 2, *Objective of General Purpose Financial Reporting*, in the following way:

"43 **General purpose financial reports shall provide information useful to users for making and evaluating decisions about the allocation of scarce resources.**"

"45 **General purpose financial reports shall disclose information relevant to the assessment of performance, financial position, and financing and investing, including information about compliance.**

## FROM WHOSE PERSPECTIVE ARE WE MEASURING?

The answer to this question may be most simply found by referring to the objective of financial reporting quoted above. If our objective is to provide information useful to users for making and evaluating decisions about an accounting entity, it should be apparent that it is from the perspective of those users that we are reporting. It is true that there may be a number of users but, although their needs may differ at times, for the most part they can reasonably be served by the preparation of general purpose financial statements. Note that we are reporting on the performance and financial position *of* an entity *for* the users of that information. We are not reporting for the benefit of an entity but for the benefit of the users of its accounts.

Accordingly, in this monograph it is the "users of general purpose financial reports", however ill-defined these users may be, whose "viewpoints" we are adopting in measuring components, sub-totals and totals in those financial reports. Because some of the main users

of the reports issued by an entity in the private sector are the entity's proprietors and the investing public generally (prospective proprietors) it may be suggested that the above argument is no more than an advocacy of the adoption of proprietary theory. It is not. Our perspective is that of all users of the accounting reports and, while we shall not neglect the interests of proprietors, we shall not neglect the interests of other users either. This does not mean that the preparers and auditors are obliged to ensure that the demands of all special interest groups are met in the financial reports of an entity. As a general rule, the preparation of the financial reports to provide useful information for the investors and creditors of the entity concerned will serve the interests of other user groups adequately. However if, for example, an entity has introduced some form of profit sharing arrangement with its employees, it may well be that the financial reports should be adapted to disclose the performance measure on which the employees' remuneration is dependent.

The same principles apply in the public sector. If the financial statements are for use only by management and the board which controls the entity, then they are special purpose reports and should be tailored to suit the specific needs of that management and board. However, if they are intended to be distributed more widely to inform users who are expected to be influenced by them in making decisions about quality of performance, financial position, etc. of the public sector entity, then the statements constitute general purpose financial reports and will be subject to the same broad requirements as are those produced for the private sector.

#### **WHAT ARE THE QUALITIES WE ARE SEEKING TO ACHIEVE?**

It should be noted that the following qualitative characteristics as set out in SAC 3, *Qualitative Characteristics of Financial Information*, while highly desirable, are to some extent in conflict with each other.

"5 For the purposes of this Statement:

...

"**relevance**" means that quality of financial information which exists when that information influences decisions by users about the allocation of scarce resources by:

(a) helping them form predictions about the outcomes of past, present or future events; and/or,

(b) confirming or correcting their past evaluations;

and which enables users to assess the rendering of accountability by preparers;

"**reliability**" means that quality of financial information which exists when that information can be depended upon to represent faithfully, and without bias or undue error, the transactions or events that either it purports to represent or could reasonably be expected to represent; . . .

### Qualitative Characteristics

- 48 **General purpose financial reports shall include all financial information which satisfies the concepts of relevance and reliability, and which passes the materiality test.<sup>1</sup>**
- 49 **General purpose financial reports shall be presented on a timely basis and in a manner which satisfies the concepts of comparability<sup>2</sup> and understandability<sup>3</sup>."**

If we emphasize comparability of reports across all industries we shall be foregoing the opportunity to improve the relevance of reports within one industry. Because there is a range of users with differing abilities to comprehend financial information, if we emphasize understandability we may reduce relevance. For example, the expert analyst may prefer data almost in its raw state, but for most users it is important that the data has been manipulated and presented in a reasonably digestible form. We must consider the competing claims of simplicity of presentation which will enhance the understandability of the reports and the need to ensure that those who require access to other relevant material are not unduly restricted in gaining such access. However, by far the most pervasive of the conflicts between qualitative characteristics and that which most directly impinges on measurement is between relevance and reliability.

### **THE CONFLICT BETWEEN "RELEVANCE" AND "RELIABILITY"**

Although it would be difficult to find fault with the qualitative characteristics set out above, it is important to recognize that it is impossible to simultaneously achieve the goals implied by all of them. In particular, there is a clear conflict between relevance and reliability which necessarily affects the measurement process.

This conflict is referred to by Coombes and Martin in their discussion of recognition of revenue. "In general, accounting might have greatest relevance if it were able to disclose information about revenue at an early stage in the (recognition) cycle ... Reliability, however, runs in the reverse direction, and the most reliable measure is obtained only at the last point in the cycle. A trade-off is required between these opposing qualities".<sup>4</sup>

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<sup>1</sup>SAC 3 defines materiality test as "that test which is used to assess the extent to which relevant and reliable information may be omitted, misstated or not disclosed separately without having the potential to adversely affect the decisions about the allocation of scarce resources made by the users of a general purpose financial report or the rendering of accountability by preparers".

<sup>2</sup>Comparability is defined in SAC 3 as "that quality of financial information which exists when users of that information are able to discern and evaluate similarities in, and differences between, the nature and effects of transactions and events, at one time and over time, either when assessing aspects of a single reporting entity or of a number of reporting entities".

<sup>3</sup>Understandability is defined as one would expect in SAC 3 as "that quality of financial information which exists when users of that information are able to comprehend its meaning".

<sup>4</sup>Robert J Coombes and Carrick A Martin, *The Definition and Recognition of Revenue*, Australian Accounting Research Foundation, Melbourne 1982, p. 27.

Wright<sup>5</sup> refers to the two extremes by contrasting the qualities of "objectivity" and "comprehensiveness" of the "wealth" or capital measure. One of the difficulties which arises in trying to incorporate these qualities into the measurement process is that the only aspect of a corporation's economic position which can be valued unambiguously and with complete objectivity is its cash on hand and at bank, although one may query whether even these assets meet such stringent requirements, especially if some of the cash is held abroad and is thus subject to the vagaries of the political situation and movements in exchange rates. At the other extreme, we gain a fully comprehensive measure of wealth or capital only by calculating the net present value of the expected cash flows, a procedure so subjective that it is likely to yield as many measures as there are measurers. Wright concludes that it "seems plausible to assume that a definition of "wealth" somewhere between these extremes will yield a concept of income where comprehensiveness is about right". While I must agree with this conclusion, the fact remains that the resulting measures are neither fully "objective" nor fully "comprehensive", and explicit recognition of this situation is essential for a thorough understanding of accounting measures and reports.

The consequence of following this approach is that, from a purely "relevance" viewpoint, an entity's assets will be understated, sometimes very significantly, when outlays are made to increase future economic benefits but are expensed because the resulting benefits cannot be measured with sufficient reliability. Profits will also be understated if the outlays written off exceed what should have been amortized under an ideal system. Examples are not hard to find: outlays on staff training and development, on product research and development, on mineral surveys and exploration, on the development of a corporate or product image through advertising and promotion -- most of these are expensed because of the lack of reliability of measures of resulting future economic benefits. We not only expense outlays which may be maintaining or even increasing the value of our internally-generated "goodwill", but we also simultaneously amortize any purchased "goodwill" which is being maintained or increased by these outlays, so that a form of double counting of expenses occurs. Note that, in all these cases, there is no problem of measurement of the initial cost: it is the future economic benefits, their valuation and the pattern of their consumption which are difficult to estimate with any degree of confidence. Although some may argue that there is no justification for excluding these assets from the accounts, the incorporation of "verifiable" as a necessary part of what is meant by "reliable" in the Concepts Statements means that their inclusion will be possible only if arbitrary allocations against future revenues are considered acceptable.

"The role of the independent audit is important in relation to reliability. In part, the auditor is concerned with ensuring that general purpose financial reports represent what they purport to represent, that their contents are verifiable and that there is an absence of bias."<sup>6</sup>

There are good reasons for emphasizing the need for "reliability" in the measures used, but we must be aware of the resulting limitations on our reports. We must also be prepared to draw these limitations to the attention of users, perhaps even to the point of admitting in

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<sup>5</sup>F K Wright, "Asset Values and Enterprise Income" in W T Baxter and S Davidson (eds), *Studies in Accounting* 3rd ed., ICAEW London, 1977, p. 196.

<sup>6</sup>SAC 3 "Qualitative Characteristics of Financial Information", para. 23.

extreme cases that the measurement of profit or performance for a particular entity is of doubtful value.

For example, in this monograph the position is taken that most outlays on "intangibles" should be expensed in the period of the outlay. This position is not only in disagreement with most of the professional standards dealing with goodwill, but also means that in many service industries significant acquisitions will lead to reported "losses" even though management may have made the correct decision to buy. If this approach were to be adopted as standard practice, it would be misleading if such "losses" were to be reported without some form of segregation in the profit statement and/or some comment on management's estimate of the "true" position outside the statutory accounts.

The opposite extreme is seen today in those reports which include highly significant values for such assets as management contracts, mastheads, licences of various kinds, access to management personnel, franchise rights, software development and other such titles which avoid the need to be bound by the goodwill standard. In Australia this means that such "assets" may be permanently capitalized and may be revalued from time to time at management's discretion. For many of the companies reporting these assets, the values shown are honestly determined, but there is no way of verifying the values in the market place. This leaves the way open for the less scrupulous corporate managers to use these assets as a means of manipulating their company's reported results and financial position. The values shown often involve the capitalization of expected future earnings, figures which cannot satisfy the criterion of "reliability". In addition, there is a real danger that the valuation will be retained even when those "expected future earnings" are being booked as realised profits, so that the basis for the original calculation is being eroded. There have been sufficient examples of blatant misreporting of all sorts of intangibles to convince me that they should be excluded from the statutory accounts altogether.

Although the question of the treatment of intangibles is less likely to arise in the public sector, it cannot be ignored. Public sector business undertakings may clearly become involved in consideration of such issues, and there have been moves towards "human resource accounting" which, in its extreme form, would require the capitalisation of the value attributable to the workforce. That the size and value of the workforce are important considerations in all sorts of business decisions is not in dispute: all I am arguing is that attempting to measure the unmeasurable should not be permitted to influence the "official" part of the statement of performance or financial position of any entity and should be confined to the management review and discussion section if it is thought to be a material consideration for the users of the accounts.

Another example of the conflict between relevance and reliability in public sector accounts may be found in the reporting of the value of a road system and its maintenance. A good argument may be mounted for not bothering too much about the valuation except for depreciation and maintenance purposes. How do you distinguish between the value of the road system and the properties which it services and, perhaps, more importantly, who needs the information anyhow? However, when we come to the maintenance of that road system, the argument for appropriate valuation becomes very much stronger. If we merely book actual maintenance carried out as an expense, the authority concerned may be made to appear to be in a sounder financial position than it really is by delaying some of the required maintenance. However, if we estimate the amount required for the maintenance and depreciation of the existing system, and subsequently reduce the asset value (however

determined) by the amount by which current outlays fall below that figure, the resulting performance report will provide the correct signals. The relevance and reliability of the asset valuation for balance sheet purposes are both open to question, but when we address the performance report, the relevance of an appropriate charge for maintenance and depreciation outweighs, in my opinion, the possible lack of reliability of the estimate of the amount required.

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## **PRESCRIPTIONS v. PRINCIPLES**

I return now to the second point made by the NSW Treasury and quoted at the start of this paper. The point deals with the relative merits of moving to broad principles rather than detailed prescriptions. While I have no doubt that Treasury is correct in its proposed approach, I can see nothing wrong with including *some* prescriptions if they can be demonstrated to be in the general interests of most users of the accounts and are not so extensive as to clutter up the presentation of the report. Let me illustrate this point by referring to our procedures at ASX.

Until the 1994 amendments to the *Corporations Law*, the only legal requirements for companies to disclose financial information to their members arose from the need to provide copies of their annual reports at least two weeks before their annual general meetings which had to be held within five months of the end of their respective financial years. As this was viewed as being totally inadequate from the viewpoint of keeping the market adequately informed, ASX has for many years required a half-yearly and a preliminary final statement within, in recent years, 75 days of the end of the financial period concerned. In addition, ASX has required a listed company to lodge, and send to its members, its annual report within four months of the end of the financial year.

Not only has ASX required half-yearly and preliminary final reports, it has also specified the format and contents of such reports. In recent years proposed changes in the format and contents have been exposed for comment, and ASX has noted the responses made by both preparers and users and amended its proposals accordingly. You will appreciate that sometimes this has involved a delicate balancing act as the interests of preparers and users are sometimes in conflict. However, most issues have been resolved without too much difficulty. Exceptions which come to mind are the demand from some sectors for quarterly reports and a request, largely from security analysts, for our format to disclose a profit after tax and preference dividends, but before abnormals, which would not be in accordance with the provisions of Accounting Standard AASB 1018. [While we have not acceded to this request, the relevant figures are now reasonably easily determinable from the information provided.] A more recent demand from the accounting profession has been for ASX to vacate the whole area now that the *Corporations Law* has been amended and there are legal requirements for half-yearly reporting. In every one of these examples there has been significant opposition to the proposed changes.

It is not my intention to raise the rights and wrongs of these issues for debate here. That would be inappropriate. However, the principles involved do have relevance for annual reporting in the NSW public sector. While I believe that Treasury is correct in using the accounting and other standards and related principles as the basis for deciding on the contents of the annual reports, I can see nothing wrong with requiring additional material to

be included if the users of your reports perceive a need for the supply of such information. It is admittedly simpler to merely follow the standards, but such an approach will not always meet your obligations of accountability to the users of your reports. The means of determining the needs of the users has already been employed in a limited way in the survey of members of parliament which was reported as Appendix 3 to the Issues Paper. If periodic surveys were to be conducted or exposure drafts of current requirements and proposed changes were to be issued for comment on a rather wider basis, I believe that you would have established a foundation for making sound decisions in this area.

## **MONITORING COMPLIANCE**

If the proposed changes in annual reporting requirements are introduced, and I hope they are, there should be a change in the nature of the audit. Given that general principles are enunciated by Treasury, it will be compliance with those general principles which should be audited. This will still require a review of internal audit procedures and some test checking of detail in accordance with an established audit programme, but the emphasis should be on an overall assessment of whether a "true and fair view" has been presented or, in Stock Exchange parlance, whether the "market" has been adequately informed. Such audits are critical to achieving the desired quality of reporting. There is no point in assuming that everything in the public sector will be as it should be if detailed procedural rules are followed. Even with my limited experience I can (and probably will, but not in this paper) provide you with examples of unsatisfactory conduct, and I am quite sure that you could provide me with many more. The point to be clearly understood is that compliance with all sorts of specific requirements is not sufficient: it is compliance with the broad principles which is important and to which the audit of the annual reports should be primarily directed.

One other form of monitoring compliance, not only with the annual report requirements but also with good business conduct and practice, must reside with the members of parliament themselves. The board of directors of a holding company cannot leave the operation of a subsidiary to look after itself: they cannot just wash their hands of it and leave it all to the subsidiary's board of directors. In exactly the same way I cannot accept that members of parliament may establish a statutory body or business undertaking, appoint a management committee or board of directors and think that they are therefore absolved from all responsibility. Day to day control *must* be delegated: ultimate responsibility *cannot* be.

## **CONCLUSION**

In the limited time available I have not been able to deal with all the matters that were raised in the Issues Paper. Indeed, I doubt that I shall even have been able to deal satisfactorily with all those raised in this paper. However, I hope that the matters which we have been able to discuss have been of some interest. If there are further aspects which you would like to raise with me, please do so in discussion at the seminar or get in touch with me at ASX. I am located at the Melbourne office.

As I have indicated above, I am firmly convinced that you are headed in the right direction. I wish you well with your project and thank you for the invitation to participate in today's seminar.

**Annual Reporting for Government Agencies:**

**what is the future?**

**NSW Public Accounts Committee seminar**

**Parliament House**

**9 August 1995**

**by**

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Background paper only.

“Annual reporting for Government Agencies: what is the future?”

1. Introduction

2. Users of Public Sector Annual Reports

3. Recent NSW Public Sector Reforms

4. Accountability for Performance in NSWs

5. Financial and Non-financial Performance Information within the Public Sector

6. Analytical Divide for Responsibility for ‘performance’

7. The Accountability Challenge: key issues

8. The Future

“Performance information underpins almost all forthcoming or current developments in public sector reform. For example, workplace bargaining requires agencies to demonstrate productivity gains if they are able to pay wage increases to their staff through agency agreements. Individual managers are now increasingly held accountable for results, through regular performance appraisal. Government business enterprises are now expected to meet measures of financial and corporate performance.”

Bartoss (1993:9)

## **1. Introduction**

The main theme of this paper is that parliament should be the primary target audience for annual reports and that government bodies have a responsibility to ensure that the needs of parliament are met. It is up to parliament to monitor compliance with annual reporting requirements. The paper stresses the importance of performance measurement and reporting in the annual report. Public sector agencies performance cannot be judged by simple private sector notions of profitability, rate of return, and financial ratios (see, Guthrie, 1995). Parliamentarian’s should view agency annual reports as a key to assessing performance of both budget and non-budget organisations.

There appears to be a lack of systematic review by parliament of annual reports. Intervention at present appears to be unstructured and largely invisible to those responsible for preparing the documents. A challenge for parliament is to develop a systematic committee structure to review annual reports and provide feedback to the preparers. A strategy would be a systematic review of annual reports by M.Ps in the estimates committees (like the Commonwealth practice).

There also needs to be more guidance as to what should be included in annual reports. These guidelines should come from Parliament, Treasury and the Office of Public Sector Management. It is expected that the guidelines would be reviewed every two years, and that there is standardisation of disclosure.

The trend towards the dominance of financial information over more organisational and social information's sets should be halted. The main focus of annual reports should be an emphasis on 'performance achievements'. This requires the production of a performance report and an external audit opinion on the report.

The main arguments in the paper are:

(a) The parliament through its committees should increase its scrutiny of departments and agencies by systematically reviewing their annual reports.

(b) Central agencies should give higher priority to resolving the purposes, content, and overlap between estimates and other budget requirements and the annual report.

(c) That any rationalisation of annual reporting requirements include the aim that annual reports are the chief vehicle for reporting of the performance of government entities.

(d) Any current information required in annual reports that may be removed, should be available on request and should be collected and subsequently reported by a central agency to Parliament.

## **2. Users of Public Sector Annual Reports**

There has been limited research into users/readers of public sector annual reports. However, there appears to be a general consensus as to the identity of users, in summary at the International level the identity of users of the public sector annual reports would include the following:

parliamentarians; central agencies; other governments; public and the media; internal management; employees; special interest groups (see, Guthrie, 1985; Sutcliffe, Micallef, Parker, 1991; Micallef, Sutcliffe, Doughty, 1994).

Concerning information needs of key stake-holders, the following summaries these needs:

**Members of Parliament:**

Financial information for parliamentary scrutiny; performance information for assessment of departments management; evaluation of government policy; compliance with laws and other parliamentary decrees.

**Central agencies:**

Compliance with appropriations, financial and performance information for evaluation of management; annual reporting directives compliance; accountability for economic and human resources.

**Other Governments:**

Interested in financial performance and program information for comparative purposes.

**Public and the Media:**

Interested in accountability for public assets; allocation of resources to particular programs; delivery of services and the administration of specific programs.

**Internal Management:**

Interested in providing information for accountability purposes and for assessment of programs or divisions.

**Employees:**

Interested in senior management and organisational performance; changing functions of the entity; and human resource information.

### **Special Interest Groups:**

Extent to which government priorities are reflected in the allocation of resources to particular departments or programs; the performance of departments in relationship to government policy and the spending of these resources (for instance, environmental groups could be interested in compliance disclosures, and environmental audit and comparison of internal environmental policies with government wide targets and policies).

As will be argued later on in this paper, in reviewing the above, it appears that parliamentarians, employees and special interest groups have not had their information needs met by current NSW annual reporting requirements. Especially in performance information, environmental matters and compliance with parliamentary wishes.

### **3. Recent NSW Public Sector Management Reforms**

The 'managerial' approach to public sector management requires that outcomes sought by government are clearly specified (program budgeting and forward estimates) and responsibility assigned for their achievements (performance agreements). These are the responsibilities of the executive government. Public sector organisations can be held accountable for performance in terms of the extent to which these outcomes have been achieved. Mandatory reporting of performance information in annual reports has become a fundamental part of this approach.

The push for performance measurement and indicators can be traced back at least to the RCAGA inquiry and report (RCAGA, 1976). From then, in general, a public sector management philosophy arose which was referred to as 'Managerialism' in the public sector literature (see, Considine, 1988; 1990; Davis, Weller and Lewis, 1989; Guthrie, Parker and Shand, 1990), and recently a new stage has emerged, that of the 'Contract State' (Alford and O'Neill, 1994).

In NSW, public sector reforms, according to the Treasury secretary (Lambert, 1994:6) have followed five basic principles, namely:

- \* Setting clear and consistent objectives and standards;
- \* Giving managers increased operational responsibility and autonomy;
- \* Holding agencies to account by objective performance evaluation against pre-agreed benchmark;
- \* Giving managers and their agencies the incentive to perform better; and
- \* Removing privileges or handicaps from Government Agencies so that they are on a more comparable footing to private sector counterparts.

Lambert argues that these principles have been applied across the whole of the public sector covering both budget sector agencies and government trading enterprises. He goes on to state that “the NSW Public Sector is now one of the most advanced in the world in terms of financial management systems covering budgeting, monitoring, accounting and reporting” (p.7).

Underlying these changes is a requirement that ‘performance’ be measurable and reported via indicators. Several questions could be asked about the performance approach. First, if the performance measures used are appropriate. Second, if the basis used to calculate the performance measures are consistent with underlying records and transactions. Third, if the performance information is reported consistently from year to year (see, Guthrie, 1994).

In NSW, there has been several attempts at performance measurement. These include GBE monitoring unit, the performance of NSW government business reports (NSW Treasury, 1992; 1995) and the recent developments in ‘benchmarking’.

Concerning the last development, the 1993 Premiers' Conference established a committee to undertake a review of the Commonwealth/State service provisions. In this review they were targeting the priority areas of health, education, vocational training, police, courts, corrective services and community services. Part of this review was to develop some sort of consistent output and outcome measurements that could be used, not only within NSW, but throughout Australia. Some of this information has already been published in various agencies annual reports.

#### **4. Accountability for Performance in NSWs**

In the myriad of accountability instruments used in the Westminster system of government one trend appears to be dominant in the recent decades - that is there has been a movement from the accountability of agencies to parliament, now to accountability to the central agencies of government.

Specifically in recent times, there has been a move from providing a range of detailed accountability information in annual reports to one where annual reports are being treated as 'public relations forums'. Also central agencies for instance, Treasury's GTE Monitoring Unit have required new forms of information, but this is not publicly available. It is true that in NSW many public sector annual reports have, in part, been captured by the 'public relations' community.

In the New South Wales State government sector, accountability for performance in annual reports includes the following three stages. The first stage is the Annual Reports Act(s) and Regulation(s) (ARSBA, 1984; ARDA, 1985; ARSBR, 1985; ARDR, 1986), which requires accountable officers to prepare annual reports. The annual report then has to be provided to the responsible Minister, this is the second stage. The final stage is when the Minister tables (with or without his own statement) before both houses of Parliament, the annual report and the Auditor-General's opinion.

The past NSW Treasurer, Peter Collins, has stated that “external accountability is essential for the efficient and effective operations of the government agencies. The annual reports of these agencies are the key medium by which they discharge their accountability to Parliament, the Government and the general community.” (NSW Treasury, 1994a: 4)

The primary purpose of annual reports should be to fulfil an entities obligation to be accountable to a Minister, and then accountable to Parliament for its performance. There are a range of secondary purposes such as an historical account of the entity, providing information for a wider group of stakeholders, and as a marketing tool.

In more detail, in NSW, the legislative framework for the reporting requirements of public sector entities arises from two specific Acts of parliament which standardise the form and content of annual reports. The first is, the Annual Reports (Statutory Bodies) Act 1984 and its amendments and pursuant regulations. The second is the Annual Reports (Departments) Act 1985 and amendments and regulations.

Both the Annual reports (Statutory Bodies) regulations 1985 (ARSBR) (clauses 4 1h ia) and Annual Reports (Departments) Regulations 1986 (ARDR) (clause 3h ii) require the disclosure of performance information.

Concerning performance measures for public sector bodies, the annual reporting legislation requires ‘appropriate’ performance measures which are described in the following terms:

“Where practical, qualitative and quantitative measurers and indicators of performance showing the level of efficiency and effectiveness.”  
(1986 regulation clause 3 h (ii))

In 1992, the NSW Treasury (circular number G1992/15) on annual reporting requirements, interpreted this clause as meaning:

“Performance information should be matched to objectives and include targets for the year under review comparing these to actual results plus strategies and targets for the following year plus comparisons with past years.”

The requirement to include in annual reports appropriate performance information has not been matched by guidance or requirements for specific performance information, other than those listed as legislative requirements (eg. review of operations, staff number, consumer response). The NSW Public Accounts Committees (NSWPAC) in various reports have argued that annual reports are central to performance measurement and judgments concerning organisations' efficiency and effectiveness (see, NSWPAC 1985; 1989; 1992a; 1992b).

The interest of parliament and government in performance information of government departments and authorities goes back at least to the enactment of the Public Finance and Audit Act of 1983. This was reflected in the major 1985 review of the Acts implementation by the NSW PAC (NSWPAC, 1985). The report was titled Performance Review Practices in Government Departments and Authorities. The key recommendation was the need for agencies to publish their external objectives and key performance measures in their annual report.

The NSW Treasury Circular No. 9 (dated 18 May 1993) titled, Guidelines for Annual Reporting, noted that one of the common problems for agencies interpreting the legislative provisions concerned the disclosure and measurement of performance. The Treasury Circular states (p.9) that: “the performance indicators should be linked with the agency's objectives. In addition, comparisons of actual results with targets and past years as well as targets and strategies for the following year should be disclosed.”

Part of the regulatory role of Treasury is to ensure that reporting requirements of the annual report legislation are complied with by all agencies. In the past there has been significant problems in non-compliance and Treasury has contracted the NSW Auditor-General to review annually a sample of government agencies annual reports. These reviews have gone on since 1992 and a recent one reported by the Auditor-General (NSW AG, 1994: 59-60) noted that some of the most common areas of non-compliance related to the omission of information regarding to: measures of performance, major works, human consumer response, risk management insurance, payment of accounts, equal employment opportunity strategies, and guarantee of service. The Treasury, in early 1994, issued the guidelines Annual Reports: A Guide for the NSW Public Sector (NSW Treasury, 1994) and later in the year provided a comprehensive list of all annual reporting requirements (NSW Treasury, 1994b).

## **5. Financial and Non-financial Performance Information within the Public Sector**

A difference between most public sector activities and most private sector activities is that the mechanism for distribution of goods and services does not follow the market model, and a measure of performance is not 'profit'. Financial information represented in an operational statement and balance sheet do not indicate the extent to which these government entities have achieved their objectives.

In the private sector, objectives are measured essentially in terms of profit, market share and return on equity. These are mostly reported in financial terms. They constitute the benchmark against which a business performance can be measured.

In the public sector, financial reports are also prepared. However, the nature and complex array of government activities (especially those activities associated with service) do not lend themselves to the same profit oriented measures used in the private

sector, given that the objectives for government programmes are frequently stated in non-financial terms. Since effectiveness information is crucial for managing these activities, other forms of measurement and reporting are needed.

Public sector service activities cannot be treated like a simple production process. The characteristics of a simple production process are as follows:

Inputs - well defined and measurable.

Process - well defined, measurable and specific inputs are required. It is expected that these will be transformed into predictable and measurable outputs. Unintended outputs can be anticipated and effects of external conditions may be controlled.

Outputs - these are well defined, measurable and a direct result of the process.

Outcomes - well defined, measurable and a direct result of the outputs. External condition changes can be controlled.

Examples of public sector activities that resemble a simple production process could include electricity generation, road cleaning, water supply and garbage collection. However, many other activities in the public sector, such as the community services, cannot be thought of in terms of a simple production process. For many public sector service activities, we would expect that there are no easy solutions to performance measurement.

Therefore, annual reports prepared by government agencies require a significantly wider range of performance information, than private sector organisations. An Australian Accounting Research Foundation (AARF) discussion paper on financial reporting by government departments (AARF, 1991:87) stated:

“Financial information is only a sub-set of the information necessary to allow an adequate assessment of a Departments performance. Departments are required to achieve service delivery as well as financial objectives.”

It adds, that the performance of any entity should be determined by reference to the achievement of its objectives (p.87). In public sector organisations, performance cannot be captured by a financial statement and therefore we must rely on:

“information about the outputs or outcomes of departmental activities, and efficiency with which it achieves these outputs or outcomes, as well as information about the financial characteristics and results of operations, is therefore necessary for any assessment of performance.”  
(AARF, 1991:87-88)

The Commonwealth Management Advisory Board and Management Improvement Advisory Committee (MAB-MIAC, 1993) supports this wider construction of ‘performance’ for Federal departments. It is accepted in the literature that public sector performance may be reported by using qualitative, as well as quantitative measures, and also descriptive and/or narrative information.

The recent AARF discussion paper, Financial Reporting by Governments, (AARF, 1994:120) has recommend that general purpose financial reports of governments should disclose performance information in the following manner:

“(a) program or function objectives;

(b) governments’ effectiveness in achieving their objectives;

(c) the efficiency and economy with which governments conduct their operations; and

(d) targets in respect of (b) and (c)".

## **BUDGET SECTOR**

The NSW Treasury recognises that Budget Sector Agencies do not have a single "bottom line" measure of financial performance for monitoring purposes. It indicates that performance measures fit into four categories:

- I. Operating within agreed financial perimeters
- II. Project output and outcome performance targets.
- III. Achievement of agreed service quality standards.
- IV. Operational efficiency and effectiveness measures.

The Treasury goes on to state that while each of the performance measures under the above categories (I-III inclusive) are important, they provide no indication of the level of efficiency and effectiveness of the agency and trends in this regard. Therefore, it argues that agency's should develop measures of both efficiency and effectiveness that cover each of the agency's objectives.

## **GOVERNMENT TRADING ENTERPRISES**

Watson (1991) comments that reporting guideline for statutory authorities do not adequately emphasis results orientated reporting. He notes that the JCPA report on Social Responsibilities of Statuary Authorities and Government Business Enterprise argued for a wider than just financial information (JCPA, 1992). Parliament should be the final arbiter of GTEs commercial, social and political objectives (see, Guthrie, 1990:75):

“Parliamentarians should not be satisfied with just a financial accountability (however adequate), but should also consider the necessary political and social accountability for these public business enterprises”

Even in the private sector, Guthrie (1985) noted that corporate annual reports provided more than legislative requirements, especially financial and non-financial information which was not prescribed by legislation or professional standards.

## **6. Analytical Divide for Responsibility of ‘Performance’**

It is important at this point to realise that there is an analytical divide concerning the responsibility of performance by the Executive Government and individual government agencies. Under the traditional Westminster system of parliamentary control of the public purse, the ministers of the Crown form the Executive which is responsible for the preparation and submission of the governments financial plan or budget to parliament or legislature. After the legislature considers and authorises the budget, the executive takes responsibility for administering the financial plan (Nicholls, 1993). That is, executive performance is constructed as managing “the actual against budget”.

As far as departments of state, statutory authorities, government trading enterprises, public servants and government employees, performance has been redefined in the recent decade as to not only focus on compliance with appropriations and proper use of public funds, but also on “achievement of objectives”, which is to be measured and reported by performance information in the Annual Report.

## **7. Future Accountability Challenges: key issues**

In the following section several annual reporting key issues are discussed.

### **7.1 Consistency**

If we take the view that all information sets are social constructs, that is the identification, definition, measurement and reporting of information is a negotiated order amongst groups of diverse interests. If this view is accepted, then by its nature performance and other information sets in annual reports should be viewed as not static, but one of continual change and development.

Consistency can be sort by various instruments, such as: law, regulations, directives, guidelines, and examples of 'best practice' by the community of users and preparers. These various instruments should be developed in a negotiated way between both preparers and users of annual reports, however, the power of the preparers in constructing annual report information should be balanced by independent review of the information systems and choices (such as compliance reviews, evaluations and audits).

Therefore to ensure reliability and consistency in annual reports:

- a) Annual reports must be timely and in the prescribed format.
- b) There should be systematic Parliamentary scrutiny of annual reports.
- c) Performance information should be audited, like financial information.
- d) Clear prescriptive guidelines should be development by Parliament and central agencies, so some consistencies across all government entities can be obtained.

## 7.2 Compliance with annual reporting requirements

The NSW Treasury has been slow in monitoring compliance with regulations and providing detailed guidelines. There appears to be not internal unit within Treasury that is set up (like the GTE monitoring unit) to review annual reports. Treasury has contracted out some of this activity to the NSW Auditor-General.

Suggestions for improving compliance are:

- a) A formal external institutional mechanism should be created were compliance is continually reviewed.
- b) There should be a "Certificate of Compliance" signed by senior management or board, and this to be included in the annual report.
- c) There should be more detailed annual reporting guidelines on what is considered to be 'best practice'.
- d) The NSW PAC should review on an ongoing basis the production, content and timing of annual reports. These are key instrument by which individual agencies (whether budget or non-budget dependent) should report their activities to the responsible Minister, parliament and the public.

## 7.3 Performance approach to annual reporting

Reporting of audited performance information by management has become a fundamental part of the performance approach to annual reporting. In WA, the Financial Administration and Audit Act was introduced in 1985 and required agencies to report on their performance indicators, and also required the Auditor General to issue an opinion on the indicators. Until recently process had been slow, but 1993 the AG was satisfied that sufficient progress had been made for him to form an opinion. Recently, the AG summarised progress to-date (WA AG, 1994).

Overseas, Sweden now requires mandatory performance reporting in annual reports and agency's have to set measurable goals for operational areas. Also the Swedish National Audit Office is required to conduct an Annual Audit, which includes an examination of the Performance Report (Swedish Ministry of Finance, 1995).

A trend is underway in the Commonwealth where the focus of annual reports in the Commonwealth should be on "reviewing actual outcomes for the past financial year," (Dept. PMC, 1994) and the presentation of program performance information in annual reports. This means that AR's should now have an explanation or program effectiveness compared to program objectives (Bartoss, 1994).

Concerning the ongoing development of performance information in annual reports. Harris (1994) noted that in the Commonwealth there has been several attempts at producing performance information for program management and budgetary purposes. This has meant the demise of program performance statements. Recent reforms have placed more emphasis on the inclusion in the annual report of program and objective information.

In NSW, any new annual reporting requirements should include:

a) **Performance report** including the results of an agencies activities broken down by operational area; measurable goals; targets; and key performance indicators; as well as how the operational goals have been derived from the politically set goals (for example, see the Swedish annual performance accounting and auditing, Swedish Ministry of Finance, 1995).

b) **Performance report audit.** As well as requiring an agency to account for its performance, in the broad sense of the term, it is important that the Performance Report be audited. This is one mechanism by which the guarantee of the quality performance report information can be established.

c) **Compliance Statement.** It is important that a key individual in each entity signs a statement to the effect that the annual report has been prepared in accordance with annual reporting legislation and other requirements.

#### 7.4 Measures to increase the level of parliamentary scrutiny

Parliaments challenge is to systematically and visibly show that the annual reports will be used and will be scrutinised. In doing this, not only should individual parliamentarian's be educated on how to read and analyse annual reports, but also an effective committee system should be put in place. For instance, the following suggested strategies could be pursued:

#### **NSW PAC**

The PAC should increase its visibility in the area of annual reporting by:

- a) Encourage yearly quality awards by sponsorship or active participation.
- b) Establish an electronic data base capable of monitoring agency compliance with requirements and timeliness.
- c) Establish a series of rolling reviews of annual reports.
- d) Maintain an active oversight role in relationship to central agency's responsibilities.

#### **Estimates Committees**

Another form of scrutiny by parliament would be the effective use of annual reports in the estimates committees. These could be structured on similar lines to the Commonwealth estimates committees where after budget considerations the members have a formal term of reference to examine the annual report.

## **Other Parliamentary Committees**

It is expected that other parliamentary committees would make extensive use of annual reports for those agencies that they are responsible for. Strategies for improving parliamentary committee scrutiny would include:

- a) Workshops and training sessions on how to read and use annual reports.
- b) Establishment of a uniform electronic form for the submission of annual reports to parliament. This material to be made available to the public via the WWW.
- c) Increase parliamentary scrutiny of annual reports by more active committee involvement.

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**REPORTING ON PERFORMANCE**

**FINANCIAL AND NON-FINANCIAL INFORMATION**

*Presented by*

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*NSW Public Accounts Committee Seminar*  
*Annual Reporting in the NSW Public Sector*  
*Wednesday 9 August 1995*

## **REPORTING ON PERFORMANCE FINANCIAL AND NON-FINANCIAL INFORMATION**

### **Introduction**

The annual reports of agencies are but one of the ways that agencies can be held accountable for their use of the community's resources or delegated powers. But for most of them it is the most important vehicle for accountability. Because annual reports are, or ought to be, comprehensive, timely, accessible and relevant they ought to allow an interested user an insight into the agency's performance during the last year and into its development over time.

To test this hypothesis, this paper looks at how the annual reports of two agencies have changed between the early 1980's and 1994. It also looks at that most sensitive topic, police corruption and how it has been dealt with in the Police Service Annual Reports from 1984 to 1994. Finally, the paper looks at performance reporting of some sensitive issues in several 1994 annual reports.

In general, the view is taken that Annual Reports do not adequately deal with the challenges, problems and threats that face Government agencies. And they do not adequately deal with their own performance.

They are too readily seen as a public relations, rather than as an accountability, tool. Bad news is omitted and the unimportant is too often featured as the good news. Unfortunately, this is not a new conclusion; it merely repeats the views of Government and Parliament when they sought to improve annual reports over a decade ago.

On the other hand, there has been an unmistakable improvement in financial reporting. In this area, New South Wales continues to lead.

### **How Important Are Annual Reports?**

There are many public accountability tools that apply to Departments of State and statutory bodies. They include question time in Parliament House, the activities of journalists and reports of select committees and standing committees of Parliament.

Nevertheless there are many agencies of Government that would barely rate a public mention through these mechanisms. And public agencies that are not dependent on the Budget - and most are not - do not appear before the Estimates Committee and are not covered by the Budget Papers.

Even where agencies are subject to Estimates Committee scrutiny or scrutiny of the other accountability mechanisms in play, there is no certainty that a comprehensive view of the agency's activities will be available.

The Estimates Committee is essentially forward looking and does not require an account of past dealings. The reports of other Parliamentary Committees are typically centred on a particular aspect of the agency's activity. And questions asked in Parliament are usually focused on a particular issue.

The Annual Report is thus, for most agencies, the only published vehicle that allows a comprehensive examination of: the agency's range of responsibilities; the range of its past activities; and the major issues that it faces in the immediate future.

It is also an authoritative document. Readers can take comfort from the knowledge that the information presented has the imprimatur of the organisation.

Lastly, the annual report of an agency ought to be relevant, in that it should cover the main issues affecting the agency. And it ought to be timely.

If it is accepted that annual reports are important, the next sections of this paper looks to see how they realise their promise.

### **Do Annual Reports Address the Important?**

- *Ministerial Directions*

It has been said that Australia's contribution to the Westminster system was the invention of the statutory authority. These bodies are separate from Government, are established by Parliament with their own powers, and desirably have a duty to account to Parliament for the exercise of those powers.

At the same time, most New South Wales statutory authorities can be directed by their Minister to a greater or lesser extent. It is thus not necessarily easy for an interested, external person to determine whether a particular action is the consequence of the statutory body making up its own mind or the outcome of a Ministerial direction.

For accountability purposes, the distinction is important. Nevertheless in my sample survey of reports I have not been able to locate any statutory body subject to the possibility of Ministerial directions that reports on those directions.

The Government, in recent legislation concerning statutory corporations, asked Parliament to require that all Ministerial directions be gazetted.

The spirit of that sound requirement could be implemented if statutory bodies that are not corporations reported on these directions in their annual reports. (Indeed, it would be useful if that voluntary practice were implemented by corporations in addition to meeting the obligation to publish directions in the Gazette. That way, the annual report retains its desired attribute of comprehensiveness.)

- *Major Issues*

A review of a number of annual reports necessarily leads to the conclusion that agencies do not always appreciate the importance of issues for which they are responsible.

The following examples of apparent weaknesses in this matter are not exclusive. The agencies have been selected because their annual reports were at hand.

In looking at the NSW Department of Corrective Services' Annual Report, readers might expect some comment on recidivism, escapees and Aboriginal deaths in custody.

I saw in the 1993-94 annual report no mention of the term recidivism or of any statistics that indicate that the agency affects the future behaviour of its inmates.

The report did comment on correctional centre security, including the following comment:

A departmental target for 1993/94 was to continue development in the effectiveness of correctional centre security systems.

But it offered no comment on the statistics, provided in the appendices to the report, indicating that the rate of escapes was higher in 1993/94 than in the previous four years.

Similarly, the text of the Services' annual report commented at length on Aboriginal inmates, on the implementation of the recommendations arising from the Royal Commission into Aboriginal Deaths in Custody report, and on the Waller Committee's review of suicide and self-harm in correctional centres. But the report did not comment on the statistics in the appendices that indicated a large jump in the number of suicides and murders in centres in 1993/94 (from 6 in 1992/93 to 14 in 1993/94). And I could see no figures for Aboriginal deaths in custody.

The Annual Report 1994 for the University of Sydney mentions - in the Vice-Chancellor's overview - the Quality Assurance program that attempts to examine the quality of Australia's universities. The report does not, however, tell readers what the outcome of the program was with respect to the University. Mention was also made of TER scores of its new students, but there is no indication of whether the University's results are strengthening or weakening.

I enjoyed reading the 1994 Annual Report of the Art Gallery of New South Wales and saw, in the message from the then Minister for the Arts, that visitors to the Gallery appeared to be one indicator of the success of its initiatives. For reasons not explained, visitor numbers were up compared to 1992/93 but did not match the numbers achieved in 1991/92.

The Director expressed some pleasure that the Gallery was re-orienting its sense of direction and values away from temporary exhibitions to the Gallery's own collections, but gave no overall hard judgement or evidence as to how well or poorly the Gallery is meeting its mission with respect to its own collection.

The Gallery does, happily, value its collection.

The State Rail Authority's Annual Report for the year ended 30 June 1994 shows that the Authority has no authoritative information on the profitability of its several divisions. Thus, it reports the cash surplus achieved by FreightRail but provides no accrual results.

For CityRail the annual report gives no overall financial result, even in cash terms. And it does not comment on what appears to be a long-term decline in the number of passengers carried by CityRail (although it notes the partial recovery in 1993/94 in passenger numbers as the economy improved).

Comments on CountryLink notes the continued deterioration in passenger kilometres achieved, but does not link the costs of that decline in light of the significant (ambitious) rebuilding program for country rail services.

The 1992-93 Annual Report of the Department of Health provided a good range of information within the text that was relevant to its activities. It did not, however, provide good information on the achievement of its mission (to improve the health of the people of New South Wales). A careful reading of the report outlined the important problems faced by the Department - ageing population and mental health - but the implications of the problems were expressed so subtly as to be almost opaque.

The 1993-94 Annual Report of the Department of Community Services stresses, in a number of ways, the importance of its role to protect children from abuse and neglect. But the data provided does not allow a view as to the extent that the Department is successful. It tells of the strong growth in the numbers of allegations of child abuse but gives no overall feel for how complete these notifications are, the outcome of the notifications or how the Department is coping with the growth in notifications.

In other important areas, helping homeless people and people with a disability and the ageing, there is even no or little comparative data showing trends of problems, let alone outcomes.

The State Transit Authority is a well-run business and some signs of that are evident from the early pages of its 1993-94 Annual Report. It has good indicators of productivity, efficiency, effectiveness and service quality.

But the Authority is particularly shy about the large losses it incurs on its services, especially for Sydney ferries for which it presents incomplete information. It appears - from the result of several mathematical calculations - that the subsidy received by a ferry passenger averages over \$2 a trip compared to the average subsidy of about \$1.60 for Newcastle bus passengers and less than \$0.65 for Sydney bus passengers. It seems clear that the Authority has considerably more financial information - on an accrual basis - than it always wishes to publish.

Of particular interest to me is the inference that, as hugely successful in patronage terms as the River Cats are, they appear to involve roughly the same per passenger subsidy as other ferries, thus increasing substantially the losses incurred by ferries. This was not noted by the Authority.

These eclectic observations suggest that annual reports do not satisfactorily address the major issues faced by agencies. In the main, if the important matters are identified, the reports give no feel as to how well or poorly agencies are addressing them.

- *The Sequential Story*

Another way of looking at the success of annual reports is to see how a major issue was treated over time by an agency.

The easiest one to choose relates to alleged corruption in the New South Wales Police Service, the subject of the current Royal Commission and of recent work undertaken by the Independent Commission Against Corruption and, to a lesser extent, for sensible reasons, the Ombudsman.

As background, you will need to know that there is good evidence that corruption existed at senior levels of the New South Wales Police Service in the early decades of this half century. Very senior officers were implicated; some were jailed. This has been accepted by the current Commissioner who recently indicated that the days of involvement in corruption:

right up to the commissioner's office and beyond into politics thankfully no longer exists (Sydney Morning Herald, 2 August 1995, page 6).

It is also relevant that the ICAC conducted eleven investigations or projects that touched on corruption since 1989. The Ombudsman, since 1982, issued 47 reports into aspects of the Police Service, although most concerned maladministration not corruption. And since 1973 there have been 8 Commonwealth or New South Wales Royal Commissions that have touched, one way or another, on police corruption in this State.

Lastly, from the beginning of 1987 to last month, the Sydney Morning Herald reported on police and corruption on 1,390 occasions; about three comments a week on the subject.

The issue of police corruption has thus always been topical and, for many New South Welsh people, a matter of concern. It is thus relevant to see how the issue has been reported in the Police Services annual reports since 1983-84.

In that first year of our review the annual report made no major comment on corruption. That position changed significantly in the 1984-85 report. There the then Police Commissioner spoke of:

recognition of the fact that corruption has in some instances reached senior levels of the Force.

The report went on to say:

It is believed that acknowledging that there is some corruption in the Force IS the first step towards eradicating it.

The studied attention given to police corruption in 1984-85 being a serious problem is not repeated again until 1987-88, notwithstanding that Commissioner Avery remained for some time.

The 1985-86 report noted that:

Allegations.....of corruption AGAIN formed only a small percentage of complaints received (emphasis added)

The 1986-87 report made no comment on the extent of corruption.

The 1987-88 annual report included a section entitled "Attack Corruption First" and another "How We are Confronting Corruption". The report says:

The outright attack on corruption has tended to polarise certain internal elements but the administration view is that "if it is hurting then it must be doing some good". At the same time, public confidence in the capacity of police to operate within the law has grown.

The report does not define "hurting" or give qualitative views about the seriousness of the problem. But it gives statistics suggesting that complaints against police (and thus, perhaps, the dimensions of the problem) are declining.

In 1988-89 standard comments are recorded about corruption and the need

to rid the organisation of the dark shadow of corruption

is seen as Internal Affairs' objective. This pattern of comment is reflected in each of the following reports. For example, the 1989-90 report says:

Meanwhile the tough and uncompromising stand against corruption continues.

This short commentary shows two diverging results. The 1984-85 report, acknowledging instances of corruption at senior levels, offers some comfort to those in the community who believed that corruption was embedded into parts of the Force and would take a generation to dislodge. There is an echo of the finding in the 1987-88 annual report providing evidence to the reader that the important struggle continued.

Thereafter, the annual reports do not emphasise corruption as a pressing issue.

Notwithstanding the concern of the community - expressed by the media - the annual reports of the Service since the late 1980's did not see internal corruption as a major issue. This is clear from other comments made by the Service in recent times. In this sense, the annual reports accurately depicted the Service's position and beliefs that there is no entrenched or systemic corruption in the Service.

In response to that view, the Government established other mechanisms - the ICAC and then the Royal Commission into the NSW Police Service - to test the community belief that corruption in the Service is a bigger problem than the Service itself believed. To this extent, the accountability regime of which the annual report is a part achieved its purpose.

There was a failure, however, to relate adequately the issues singled out in one annual report with their situation in the preceding or following years. In other words, annual reports were viewed as discrete, separate reports rather than as a slice of a continuing story. Thus we could see one Commissioner in one year, 1984-85, treat internal corruption as if it were an important problem while, in the following year's report, under the same Commissioner the issue is hardly discussed. And while the issue was the subject of detailed comment in the 1987-88 annual report of the same Commissioner, the 1988-89 annual report of his successor hardly mentions the issue.

More than that, the annual reports did not disclose adequately how large a problem was corruption when it went up to and beyond the Commissioner's office. And they did not disclose how the Service judged that it had been successful in ensuring it no longer existed. It seems from a review of the reports that internal corruption was an issue for the Service not for the reader who merely had to be assured from time to time that the issue was being addressed resolutely. It seems, from the establishment of the Royal Commission, that this was not an adequate response to the community.

- *A Tale of Two Reports*

A third approach to determine the health of annual reports is to see how annual reports, as a whole document, have developed or changed between the early 1980's and 1994.

If we look again at the NSW Department of Corrective Services we see a large number of important improvements.

Foremost of the gains is the improved financial presentation. In 1984 the Department reported on a cash basis; it now, of course, reports on an accrual basis. In 1984 there was no audit opinion, there is now.

The 1994 presentation of financial data is also clearer and more understandable; the statements provide more information; they are comprehensive; and they now provide a continuing picture of the changes in the Department's financial activities and position.

In the qualitative area, the 1993-94 annual report of the Department is more strategic on its focus and tries to review its performance against targets and goals (although this is not done at all well).

In presentation, the 1994 report is more polished, streamlined, user-friendly and more business-like than its 1984 model.

Although there are the continuing, important weaknesses, there are also important gains available to the 1995 readers.

The changes observed between Sydney Electricity's 1982 and 1994 annual reports are not as large. This is so, in part, because Sydney Electricity reported on an accrual basis over the entire period. It also stems from its "business" style approach to annual reporting - a style that has been consistently followed across the period.

But there are important improvements nevertheless.

The 1994 report has more detailed financial reports and it now follows generally accepted accounting principles whereas the earlier report was prepared in accordance with the Gas and Electricity Act 1938. This means that the Authority's financial performance can be more readily compared to its peers and competitors than in 1982.

Sydney Electricity's non-financial reporting is also improved. It is more forward looking, less inward looking, more concerned with customer and quality issues and more strategic than its 1982 model.

And the report is also relevant. It comments on the issues of real concern to it - increasing competition, the inability to meet targeted return on assets - in a way that Departments and other agencies closer to the Government find hard to do.

### **Are the Improvements Sufficient for Parliament?**

In 1983 the Public Accounts Committee (chaired by the current Treasurer, with the immediate former Treasurer a member) brought down a compelling Report on the Accounting and Reporting Requirements for Statutory Authorities. (It was, by the way, the Committee's seventh report since it was empowered in 1902 to inquire into matters referred to it.)

The Committee found this about annual reports as they were in the early 1980's:

- most annual reports are next to useless;
- annual reports are late;
- annual reports use inconsistent accounting treatment;
- annual reports fail to disclose important information about their objectives and achievements (page 1).

The catalogue of financial reporting weaknesses took almost a page (page 16) of the Committee's reports. Problems ranged from incomplete reporting of costs to confusion of capital and operating costs.

The Committee did not list problems in non-financial reporting but it observed that the quality and content of such information is critical for measuring performance (page 28) and it provided 5½ pages of issues and headings that should be addressed in annual reports (pages 29-34).

In a separate chapter (Chapter 9) it observed that:

There is no way of judging the efficiency and effectiveness of an authority without the development and use of performance indicators ..... (page 35)

It noted then that very few New South Wales authorities were able to point to their general use and it sponsored their wide use.

The Committee also saw problems with the timeliness of annual reports (page 37) and their availability (page 40). Some of these problems have been adequately addressed following the Government's response to the Public Accounts Committee's report. In general, reports are now timely, they are available and there has been a concerted improvement in financial reporting, such that New South Wales is now leading in this area.

But I fear that this Public Accounts Committee might not be able to conclude that non-financial reporting in annual reports is at an acceptable standard.

In particular, the promised benefits of program budgeting that the 1983 Committee mentioned have not eventuated.

In 1983, the Public Accounts Committee questioned the “conventional political wisdom” that true accountability was unnecessary as a tool for increased living standards. It spoke of the growing government enthusiasm for Parliamentary scrutiny and improved accountability. But I do not think that we have yet seen the maturing of that full accountability; governmental enthusiasm has waned somewhat.

The current Public Accounts Committee might well conclude that there remain considerable problems with the reporting of non-financial data.

### **Are the Improvements Sufficient for Government?**

The Government’s formal view might not be known for some time. But it is worthwhile to look at expectations in 1984, when the Assembly debated legislation proposed by the then Treasurer, Mr Booth, on the annual reports of statutory bodies.

The legislation followed the Public Accounts Committee report mentioned above and reflected, in the then Treasurer’s words:

widespread public and parliamentary concern that authorities have not been made adequately accountable to the public, the Parliament or the Government (Hansard, 9 May 1984, page 458).

The Treasurer said:

Most deficiencies are in the failure of authorities to satisfactorily explain their aims and objectives, functions and services or to provide basic information about personnel and organizational structure (ibid).

The legislation remedied some of these deficiencies in accountability of authorities but, as the Mr Collins noted:

Bringing their activities under close scrutiny - let alone control - will take some years to achieve (Hansard, 22 May 1984, page 1262).

Mr Collins also reflected the findings of his committee and the size of the problem:

..... overall and with only rare exceptions, annual reports provide scant information and avoid the real and often daunting problems confronting the State. Most bureaucracies avoid inclusion of material that could be taken to demonstrate weakness ..... the end product is a range of glossy but essentially empty publications which serve as fodder for the reception areas .....(op cit page 1267).

Mr Neilly, as a Government member at that time, made this perceptive comment about the legislation:

No stringent performance indicators are required ..... Time will tell how reports prepared in future by government departments and most certainly by statutory authorities deal with the requirement to present publicly what they have done so that their performance can be measured (op cit page 1284).

In 1985 the Government introduced the further legislation dealing with the annual reports of Departments. Mr Booth again recorded problems that the legislation was aimed at including:

no requirement for some agencies to report; failure to describe what the Department was established to do and what it did; lack of consistency in financial reporting; untimely reporting (Hansard, 13 November 1995, page 9542).

Again it is not clear that all of the problems were addressed as adequately as that Government might have wished.

### **Performance Indicators**

Perhaps the most glaring problem remains a lack of adequate performance indicators. Their absence merely shows the relative unimportance of financial results as a measure of achievement.

We have seen that those supporting the Committee's report and the Government's proposed legislation did so in the context of program budgeting that was also a reform introduced by Treasurer Booth.

But the absence of a specific legislative requirement for these indicators was seen by some as a weakness.

Mr Smiles - a then member of the Opposition - suggested that:

the Treasurer has missed the opportunity to include ..... indicators of efficiency and effectiveness that should be included in such legislation in recognition of the full thrust around Australia, not just in New South Wales, of public and parliamentary feeling to full and effective recording by government departments (Hansard, 19 November 1985, page 9855).

It is a weakness because so much of the Government's endeavours are not dictated by market mechanisms. In these circumstances, financial performance does not give much of a clue about the effectiveness, efficiency and economy of their activities. For example, public hospitals' financial statements basically centre around the accrual based cost of operations and the Government's offsetting contributions. The net result - typically wavering around zero - is not particularly informative.

Even for government trading enterprises, the financial data may not be that revealing. For a start, the entities typically enjoy monopoly status; they also enjoy a Government guarantee; their balance sheet can be skewed with liabilities because of a Government's desire for dividends, or it can show the effect of debt assumption by the central Government (as has benefited State Rail Authority on more than one occasion). They can be affected by undisclosed Government requirements and uncompensated Government social programs.

Because of these characteristics, there has been in Australia since the early 1980's episodic enthusiasm for program budgeting. Inherent in that is the development of objectives. These are developed in a way that allows performance indicators to show how well or poorly the objectives have been met.

As I understand it New South Wales was one of the first Australian jurisdictions to embrace this initiative. However, the results do not show it.

And section 11 of the Public Finance and Audit Act 1983 places a legislative requirement on managers of departments and authorities to have:

sound practices for the efficient, effective and economical management of functions.....

It is difficult to achieve this without performance indicators.

Public servants, of course, have an interest in not developing indicators. They may actually be used and compared to suggest inferior performance. Sometimes Governments share this interest when promises are more important than achievement.

For these or other reasons - and we should not forget that it is often difficult to establish sensible indicators and collect necessary data - we have seen that agencies' annual reports are clearly deficient in this area.

In some other proximate jurisdictions, New Zealand and Western Australia, the Auditor-General prepares an independent audit report on performance indicators. In Western Australia, this extends to their relevance and accuracy. I understand that the public sector auditor in other regions (eg Texas) is similarly involved.

This has helped to moderate - if not overcome - the natural resistance to reporting on performance indicators.

That resistance is alive and well in New South Wales and a remedy to it offers, as I have said before, the single most important remaining means to improve accountability in the New South Wales Government.

If such a proposal were introduced, it would be important to distinguish between audit opinions on financial statements and audit opinions on performance indicators; it would be necessary to allow a gradual program that gives agencies time to establish indicators, collect data and report; and it would be appropriate to require criteria to be developed that could be used to determine relevance and accuracy.

The first step, however, is to acknowledge that as useful as have been the improvements to annual reports, they may well fail the test that the Public Accounts Committee saw in 1983.

***The Other Face of Accountability:  
Annual Reports from the New South Wales Parliament  
and its Organs***

**by R.L. Cope**

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**Paper prepared for the Public Accounts Committee's Seminar  
on Annual Reports, Sydney, August 1995.**

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## INTRODUCTION

This Paper has two aims. Firstly, it tries to set a context for discussing the rationale of annual reporting and the nature of annual reports. In this regard it comments on the Issues Paper of the Public Accounts Committee, but it also broadens the perspective to consider issues of accountability, transparency, and the notions of 'meaning' and 'information' as applied to annual reporting, and what is involved in upgrading the quality of attention to annual reporting which the Committee seems to favour. Observations are offered on an enhanced use of computer technology in the production of annual reports. Flowing from this suggestion is the possibility of the involvement of relevant public groups and individuals in the review of annual reports.

The second part of the Paper looks briefly at the accountability record of the New South Wales Parliament, both as a legislative body and a continuing bureaucratic organisation, through the production of annual reports. An assessment of annual reports currently available (1995) from both these quarters is briefly attempted. Suggestions are made about the categories of information and data the citizen might expect to find in reports about the parliamentary institution and a mechanism for evaluating the annual reports of parliamentary departments and organs is proposed.

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# PART ONE

## Concepts and Theories

The appalling record in recent times of three Australian State governments (South Australia, Western Australia and Victoria) in the management and use of very large sums of public money is now widely known. It would be a fascinating study to examine why the various accountability and reporting arrangements and monitoring agencies which existed were so ineffectual. If the information and reports that were available were reliable and not just decorative, the sceptical citizen and public servant may well wonder at their lack of impact. At this point one could ask a variety of questions on this matter, but for the present it suffices to note that information in itself--irrespective of its 'quality'-- may be stillborn if other prerequisites are wanting. In other words, information may be necessary, but in many contexts it may in itself not be sufficient for understanding or action.

Our attitude to information in the public sector is undergoing substantial changes. This is a phenomenon in many countries overseas as well and is related to the severe questioning of the role of public administration which has gathered pace in the last two decades or so. Perhaps the recent major policy changes on the production and availability of public information in the US federal government initiated by the Clinton Administration may be taken as one powerful indicator [1]. Social expectations are nowadays a factor in a way they were not before; the power and pervasiveness of the media are another. Recent changes affecting basic questions about information stem from advances in technology. The public sector is increasingly reliant on the use of computers for its daily operations, but private citizens are fast becoming adept at using databases from home computers and in libraries. There is, indeed, a steady message to the community telling citizens that they must have ever more information if life is to be worth living. There is, however, a lot of tendentious, even shallow rhetoric on the subject of information and how it will 'empower' us. Satirists find a rich field for their wit in this regard. Jimmy Durante's song about reading the 'book of the month', the book of the week, the book of the day' and so on, is not without its message[2].

One of the greatest problems to-day is not so much the availability and accessibility of information as the control of its outpourings and the question of its quality, relevance and timeliness. Is it indisputable that the increasing number of annual reports being produced by the organs of public administration have led to any essential improvement in the way they operate? Are we more certain that we really understand what they are doing? The subsequent discoveries and investigations, leading to imprisonment of some offenders, seem to indicate that citizens of the three Australian States mentioned earlier did not benefit from the 'information' processes in place at that time. Until we are agreed on what we mean by 'quality' of information, we will continue to have major uncertainties and inadequacies, even though we may be drowning under a flood of 'information'. This point is not intended to be a disguised way of advocating some sort of 'cost-benefit' concept. The problems require a more searching and sophisticated analysis before any solutions can be confidently offered.

Members of parliament are clearly not able to monitor the quantity of published information sent to them from government departments and statutory bodies. More to the point is the fact that the political process, to which the largely formal parliamentary process is subordinate, does not demand or depend on this kind of monitoring, especially if it is unfocused. Monitoring for the sake of monitoring is too diffuse and unfruitful in political terms to be a valid investment of a Member's time and attention. But of course, where political consequences and concerns, or policy differences are involved, annual reports will be read with meticulous analysis. This is a dilemma which cannot be easily resolved, but it is just as well to be clear about the ground rules before we embark on counsels of perfection.

The Canadian expert in administration, Henry Mintzberg published in 1994 a work entitled The Rise and Fall of Strategic Planning which will repay reading by all those interested in the role of information in decision-making and management. He raises issues which are as valid for the public sector as they are for the private sector. Even in the rather special area of concern to us, his observations and obiter dicta provide much that is worth pondering. We will return later in this paper to some of his points. One quote may be cited, however, at this juncture since it neatly rounds off remarks made in the paragraph above. The quote comes from a book by Richard Neustadt about the information needs of US Presidents:

*It is not information of a general sort that helps a President see personal stakes; not summaries, not surveys, not bland amalgams... To help himself he must reach out as widely as he can for every scrap of fact, opinion, gossip, bearing on his interests and relationships... (Mintzberg, p.262-263)*

What is described in this passage is a truth every member of parliament knows and lives by. Annual reports as 'surveys' or 'bland amalgams' belong in a different world from that of the practical politician. Why waste time with them? But a strong caution is necessary at this point: it is not unknown for the political masters running executive government to want annual reports to be as bland and comforting to themselves as possible. Sanitised annual reports abound these days, even though heavily supplied with 'hard data', that is, statistical, graphs, tables of figures and lists of various kinds of information.

Annual reports can be made the easy butt of anyone's wit, but that is to take the accidental for the essential. Our concern is to gain a clearer notion of how we might reach consensus on what distinguishes the essential from the accidental. There are no absolute standards on content, presentation and scope to guide us in this task; we might well encounter a grid of possibilities. Rather than be categorical and prescriptive about guidelines, however, we would not wish to preclude the possibility of still being surprised by novelty and genuine human creativity, even in the production of annual reports.

The real issue at the core of the discussion of the nature and content of annual reports in the public sector is how far the influence of what is euphemistically called '**political correctness**' affects their quality in the widest sense. Guided democracy in the public sector has shown itself to be but another version of self-interest at work: milk masquerading as cream?

The reasons for producing annual reports by private and public sector bodies are various and generally self-evident. As regards public sector bodies, the statement on the rationale for annual reporting in the Conceptual Framework for General Purpose Financial Reporting drawn up by the Australian Accounting Standards Board and associated bodies, may be cited as of general applicability, although its focus is largely financial[2]:

*...governments are reporting entities because:*

- (a) they command significant resources;*
- (b) their use of those resources can (and does) have a significant impact on the social and/or economic well-being of members of the community; and*
- (c) there is a separation between management and 'ownership' of those resources...*

This statement reflects a rather narrow conceptual base which leaves out questions of political and other values, a subject to which some attention will be paid later in this paper. The statement is, however, helpful for causing us to consider what is meant by 'resources'. Is the intellectual competence of the administrative class (as distinct from the political masters) a 'resource'?

Generally annual reports are considered inadequate unless they provide information (sometimes called hard data) in quantitative aggregate form. This information is, of course, indispensable and is seen as an expression and indicator of accountability of performance. Accountability is nowadays often linked with another term 'transparency' which is of increasing concern as our society becomes more sensitive to what may be ramifying 'corrupt practices' in public life. The doctrine that the executive must be answerable to the legislature for its caretakership and management of public resources is clearly accepted in our polity. A word of caution about hard data may not be amiss at this point since it is often taken as the chief criterion of accountability:

*It was a common error to impute to figures a greater accuracy and reliability than the basis on which they were arrived at could warrant on the most generous interpretation. And once the figures were called 'statistics', they acquired the authority and sanctity of Holy Writ.  
(Devons, quoted in Mintzberg, p.265)*

Although Devons is describing a concrete instance, who can doubt the general truth of his remarks?

What, we may next ask, does the term 'accountability' itself mean? Is it threatened with an erosion of meaning because of over-use or even occasional misuse? It is a 'politically correct' term, but like the word 'information', it can become a ritualistic, incantatory word. Perhaps some may maintain that accountability implies sanctions or penalties as an outcome for failures in accountability, but that view is not always strongly supported in political

practice. An important article in the Winter 1993 issue of the Australian Quarterly quotes the observation of two scholars that current developments in the public sector 'make the whole concept of accountability problematic in the modern world.' (Uhr, 1993, p. 14). Of course, those arguments are chiefly concerned with accountability to parliament. What about parliament's own accountability? The second part of this paper will take up that theme.

The report of the Senate Standing Committee on Finance and Public Administration (The Timeliness and Quality of Annual Reports 1989) contains passages of relevance on both the topic of accountability and the guidelines which producers of official annual reports should follow. The report states (p. vii) :

*The central purpose of annual reports is accountability, exercised through tabling in Parliament, and the needs of any audience other than Parliament must be secondary.*

At first sight that statement seems reasonable, but is it really adequate in the long run? This paper calls some of the assumptions underlying the statement into question, not because they are wrong, but because the case is too narrowly argued. Its terms all need analysis for what they imply. What is 'parliament' but a changing collection of members of varied backgrounds and factional disagreements, with differing interests and allegiances? Are the needs of 'parliament' exclusive of a possibly wider and longer-term public interest? There does not seem to be any reason why the two cannot be seen as complementary or supplementary. Should annual reports be forced into some procrustean bed of officially endorsed and mandatory guidelines which are believed to represent what 'parliament' needs to-day but which may do no more than suit the wishes of the party in power?

It would be an exaggeration to warn against a poisoning of the wells, but if annual reports can be considered as 'wells' from which we draw information, we would want to be satisfied that the water they yield is not polluted, no matter how clear it may seem to the drinker's eye.

Considerations such as these lead one to be cautious about promulgating guidelines for annual reports which are too ironclad (usually reflecting the unstated assumptions of the powerbrokers of the moment). Guidelines setting out minimum requirements are necessary, but how far should they go beyond that? The Senate's Standing Committee report is of importance for what it indicates in this regard, but its perspective should itself be scrutinised objectively. Perhaps even more noteworthy are two reports by the Federal Parliament's Joint Committee of Public Accounts into guidelines for annual reports of departments and statutory corporations. There is excellent material presented in all these reports and clearly one does not need to reinvent the wheel.

The Issues Paper of the New South Wales Public Accounts Committee on public sector annual reports reviews the existing State provisions on their production and submission for parliamentary scrutiny[3]. At the same time, the Issues Paper raises points about improvements to existing provisions, aimed at achieving 'best practice standards'. It also invites suggestions on how measures might be introduced 'to increase the level of

parliamentary scrutiny of annual reports'. It seems that by 'level of parliamentary scrutiny'(p.12) is meant a wider mechanism (new bodies) for this task. Examples may be a Public Bodies Review Committee and general purpose parliamentary committees to review regular reports dealing with specific areas of public policy.

Those suggestions follow what has been tried in Canberra and Melbourne. They represent a standard and orthodox, but possibly timid, response to the problem, whereas the present paper argues that the opportunity exists for some differing viewpoints to be considered, and for a more searching, even unorthodox exploration of the nature of annual reports. It would be a good time to encourage the use of 'political imagination' with regard to both their nature and examination. These proposals seem in line with the policies and objectives of the recently elected Carr Government which has expressed a will to go beyond the management legacies of the past.

In particular the Public Accounts Committee might well consider the questions of public sector annual reporting within the framework of recent advances in technology and electronic means of communication. The 1993 report by US Vice-President Gore to President Clinton , entitled From Red Tape to Results: Creating a Government That Works Better & Costs Less contains many proposals for using computer technology which are equally feasible in Australia. Also mooted in the U.S. is a 'Bill of Writes' which would require each item deposited for copyright purposes in the Library of Congress to be accompanied 'by its digital source'(Wired, May 1995). The Committee will be aware of these general developments in electronic communications, but they receive no attention in the Issues Paper. This matter will be dealt with more fully later on.

The wider developments in the field of information science also warrant some notice at this stage of the Committee's deliberations. There is nowadays a growing recognition in government and public administration that communication, information flow, information as process as well as product, information as strategy and so on, are of increasing relevance to concepts of good government. 'Participatory' democracy and 'information' democracy are gaining a growing share of scholarly and public attention in the 1990's. Addressing information issues more consistently and coherently can bring government and parliament real benefits and may save us from avoidable pitfalls[4].

If, as the Issues Paper suggests, additional bodies are to undertake these scrutiny responsibilities (or existing bodies are to be replaced for this purpose), it would be useful to assess the achievement (and failures) of the other Australian parliaments confronted with the same problems. A general review of the field Australia-wide would be a good investment of public funds and would be a suitable theme for discussion at a meeting of the Australian Council of Public Accounts Committees and other interested bodies.

Whilst most observers will have reservations about the recent performance of some specific parliamentary bodies in their review of public sector matters, we wish here to raise points of a general nature in this regard. An improvement in parliamentary mechanisms for reviewing annual reports cannot avoid discussing the ever-present dilemma of political motives undermining the spirit, if not the letter, of the rationale of parliamentary review of

administrative affairs. Where there is a clash of the two, politics will always win the day, especially as standards of 'responsibility' are unequally applied. Such dangers cannot be excluded easily in a parliamentary system which is now largely a party system of parliamentary rule[5]. This is obviously a theme which goes beyond the scope of the present paper, but it is appropriate to refer those interested to Sir Geoffrey Yeend's strictures on aspects of Federal parliamentary reviewing mechanisms (Walsh, K.A. 1993 p.36). This is a problem not amenable to easy resolution since it involves personal behaviour as well as inevitable party desires to score points without being too nice about the means[6].

Doubts of an even more fundamental kind have been voiced by an observer well qualified to speak. In a paper entitled "Can Parliament Cope? Towards a New Era in Public Account- ability", Gary L. Sturgess presents a number of points of relevance to issues raised in this paper. He states:

*My thesis is that there are severe limitations on Parliament and that the capacity of Parliament to perform this most vital role [i.e. of scrutinising the performance of the executive] may, if anything, be deteriorating. (Sturgess, 1993, p.48)*

Sturgess states his support for a greater role for parliamentary review, but also expresses 'a profound scepticism about the capacity of Parliament, at least as it is presently structured, to cope with the tasks with which it has been charged'(Ibid).

It is interesting to see in the Federal sphere that the Joint Committee of Public Accounts expressed in 1991 fairly cautious doubts about the quality of scrutiny given to annual reports by the Senate's general purpose standing committees. It calls for 'the highest degree of consistency [in the] quality of review across [all Senate standing committees] (Report 309, p.59). There may be some political undercurrents to this matter which are not obvious to the reader, but whatever the case, the Sturgess reservations seem strengthened.

Also necessary is a clearer conception of what a more fully articulated scrutiny of annual reports in the New South Wales public sector implies. This requires further a re-thinking of the characteristics or nature of annual reports. Should we follow the Senate Standing Committee's lead in considering them as responses to the criteria set down in promulgated guidelines and chiefly as factual statements of outcomes and performance? Such criteria, disregarding for the moment their own inherent limitations, are necessary. But they are not sufficient, if the wider context advocated in this paper has validity.

Annual reports compiled with a full sense of professional freedom from external or even internal (but never overtly transparent) political constraints (the "Loo Loo won't like it" syndrome), also contribute much more to a healthy public understanding of the polity. They can raise questions, suggest doubts or uncertainties about matters relevant to their brief. Reports of this type can in fact give us 'meaning' and not just 'information'. But one will rarely meet ministers who would be happy with such an idea taking root under his administration. The distinction between meaning and information is not given the amount of attention which it warrants; it underlies much of what the present paper is about. The Loo

Loo syndrome (cf. David Dodge's 1960 novel Loo Loo's Legacy) is equivalent to what is acceptable to the reigning political correctness. The syndrome is always with us in some form or other, but let us hope that the admittedly frail countervailing forces can uncover intolerable censorship or, at worst, the suppression of what does not suit the reigning powers.

If annual reports were to be seen not just as vehicles for transparency and accountability for past performance, but also as conveying meaning and context, we would have some knowledge of qualities such as: administrative resourcefulness, intellectual competence and a vision of future directions or of a range of choices. Then we might come to believe that the country is indeed in the very best of hands. In this case, a greater range of skills in parliament would be necessary for the analysis and scrutiny of such annual reports.

Even now under existing procedures not enough recognition is given to the fact that annual reports can be viewed as 'constructs,' reflecting an environment with its assumptions, traditions, stresses and internal dynamism. These are matters which often do not lend themselves to becoming statistics. It may on occasions be equally helpful to regard annual reports as 'texts' and 'information systems' containing not only information, but also 'messages'. To look on them from such points of view facilitates a greater depth of understanding of the reporting body.

The morale and esprit de corps of the department, the degree of staff commitment to its work and 'values,' are arguably much undervalued and rarely publicised resources. The investment in staff training and development is hollow and wasteful if the departmental morale is woeful. The 'health' of an organisation is something which cannot be simply taken for granted: it is essential to the quality of performance and outcomes. These matters belong to the realm of 'soft data' and are slippery things to get a handle on. But is it unreasonable to suggest that they merit some attention in annual reports which purport to give insight into the workings of the body reporting? The Federal Public Accounts Committee's two reports mentioned above show an awareness of these points, but rather skirt round them in their recommendations on guidelines for annual reports.

The New South Wales Public Accounts Committee's Issues Paper might be strengthened if it were to broaden its perspectives to consider whether these suggested dimensions are relevant to its brief. Of course, there is no suggestion that other perspectives do not also merit the Committee's notice. Perhaps some of these 'philosophical' issues may seem alarming or overdone; they are raised here in the belief that practical procedures and processes cannot be fully effective if their intellectual basis is neglected or imperfectly recognised. As someone once said, there is nothing more practical than good theory.

Hard data will always remain essential components of annual reports, but the limitations should also be faced squarely. Are parliamentary committees well enough equipped to recognise and deal with such limitations? Can they be misled? The Sturgess paper thinks parliaments are in difficulty dealing with the existing status quo, but the wider perspectives proposed in this paper introduce the even more elusive area of 'soft data', and add complexity and difficulty.

What does, however, seem clear is that the Public Accounts Committee wants official annual reports to receive a greater degree of attention; this is a laudable move, but we must not lose sight of the fact that in to-day's world

**attention is itself a scarce resource and may be, in terms of public life, a diminishing resource.**

This point will be taken up later in this paper.

To look on annual reporting in the wider framework suggested here changes our thinking on how we should analyse the product and on what the task will be for bodies charged with their scrutiny. Obviously it could be superfluous or futile to view every single official annual report in this light, but there will undoubtedly be other annual reports where the opposite applies. Perhaps the chief advice we should take to heart at this initial stage of investigation is to lay aside any 'heavily tinted goggles'.

Gathering together at this point some suggestions made above, we would urge the Public Accounts Committee to consider the following possibilities with regard to the use of wordprocessors and email for the production of annual reports. Since data for annual reports can be stored progressively on hard disk and transmitted on floppy disk and by email, the time is now here when reports need not be annual in the old sense at all. They can be progressive and periodic, with cumulations at any point during a given period.

The timetabling of parliamentary review could take advantage of the possibilities of technology in a way not hitherto attempted in New South Wales. Reports must be on hand for the annual budget review in parliament, but technology can provide even later information at a given date if this is necessary. The annual report is, of course, frozen in time in what it reveals. This need no longer remain the case.

Computer and wordprocessing technology make it simple to generate indexes to the contents of annual reports. Such indexes at the back of reports (as well as good contents lists at the front) should be provided wherever possible. The recommendation of the Federal Parliament's Joint Committee of Public Accounts seems worthy of adoption in New South Wales in this respect:

*All annual reports in excess of 50 pages, including appendices, should provide an index to aid accessibility to information. Where an index is not provided, an annual report should contain a detailed table of contents. (Report 309: Annual Reporting Guidelines for Statutory Authorities, p.64)*

The printing of sometimes voluminous annual reports need no longer be a costly and time-consuming exercise if copies of all information were available on floppy disk and sent on request to those wishing to have access to the full range of information. Many reports contain substantial lists of information which are regularly updated and consolidated in each annual report. Such lists are now held as files on computer disks and are accessible at any

time. Breviates or summaries in printed form could still be produced in the traditional manner if there were need for this. There could be large savings in printing without any diminution of information available to those wanting the full range. Ideas in the Gore report to President Clinton might be explored in this regard.

There is another benefit which computer and communications technology confer: simultaneous wide dissemination. Floppy disks containing annual reports can be sent out to target groups and individuals whose feedback could assist parliamentary processes of assessing performance of public bodies and, as we hope, their management of public 'resources'. Arrangements for this would be simple to put in place and control. Response could be back to the Committee by floppy disk or email.

This is a novel suggestion, but no more novel than a Canadian parliamentarian's recent proposal for Citizens Assemblies to be set up by legislation to provide input for new legislation. This is a bold use of political imagination indeed[8]. If it is true that parliaments are suffering a strong loss in public esteem and becoming, some might claim, 'irrelevant' to the concerns of citizens, one way to counteract this trend is to involve citizens more directly in parliamentary mechanisms.

The suggestion for a wider form of review and not just for the production of better annual reports alone is made here in general terms. The Public Accounts Committee would need to evaluate its utility and implications and be alert for any possible pitfalls. It would also have to be serious about the importance of annual reports and hence about the quantum of time and, especially, resources it would devote to them. There is nothing to be gained from empty lip-service to the task; other things may claim higher priority in the real world of party and parliamentary politics. Such a decision is ultimately a political decision. Possibly some kind of trial could be run on an exploratory and very limited basis.

It may be noted in passing that in Canberra the Royal Institute of Public Administration has been involved with the Parliament in matters regarding official annual reports, but the scheme proposed here is of a different and more sweeping nature.

Does enhanced attention to annual reports, even without taking up the suggestions above, imply need for more parliamentary staff, that is, non-party aligned staff? The implications do indeed point in that direction. The cynic will comment that parliaments may be the last place to practise self-denial in staffing or other matters. Their staff establishment figures show a steady rise as it is, whereas public sector employment shows a sharp fall. But the proposal may not require anything more than a better, more rational use of existing parliamentary human resources, based on the admittedly revolutionary recognition that resources between the two Houses and other departments may, within limits, be pooled for such review purposes. We can point to the Federal Canadian Parliament where such a system is in place: subject experts from the Library are seconded to assist House committees. Possibilities exist and there is nothing inherently objectionable in the practice as long as equity prevails.

Whatever the merits of suggestions advanced here, the time seems propitious for

changes and innovation, even in the modest realm of annual reporting. With a new Government in New south Wales keen to make a real impact, fresh possibilities offered by technology, and changing public perceptions of our social and political traditions, new paths of accountability and transparency seem opening up and worth exploring. Perhaps they will actually lead to real improvement and benefit to the state without causing extravagant expenditure.

However, as a general observation on the work of the Public Accounts Committee and one applicable to the topic of annual reporting, one can do no better than quote the words of Konosuke Matsushita:-

*Big things and little things are my job. Middle-level arrangements can be delegated. (Mintzberg, p.27*

## **PART TWO**

### **Parliament's Own Accountability**

#### **Warts and Beauty Spots**

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#### **Introduction**

This Part builds on Part One, developing some points and suggestions, but generally narrowing focus to the annual reports from the arms of the New South Wales Legislature. The dual nature of the Legislature is considered in its relevance to the production (or non-production) of annual reports. What can the citizen learn from them about Parliament's transparency and accountability? How do the reports reviewed inform the curious outsider concerning matters which might be legitimately considered within the ambit of 'parliamentary and civics education'? Do they make the system in itself and the performance of the operators clear? The question is posed: have citizens a right to know how the Legislature is really managed, what its staffing arrangements and procedures are, whether its policies differ from those of the public sector, and so on.

Whilst necessarily brief comments are offered on sample annual reports, a balanced analysis really requires an examination of a series of all reports, not just of the latest issues. Ideally one would wish to compare the output of the New South Wales Legislature with comparable reports issued from other Australian State parliaments. That has been attempted in only a modest way.

Finally, this Part asks why there is such an unsatisfactory patchwork of reporting by the administrative and service organs of Parliament. No overall picture emerges from which the citizen could assess the nature and performance of the whole parliamentary institution. Some suggestions are made about the types of information about the parliamentary bureaucracy which should be provided in future, and a possible framework of external reference with an element of peer review is mentioned.

#### **The Corporate Image of the Legislature**

Whilst parliamentary workloads are growing heavier and parliamentary life is making more strenuous demands on both the members and the staffs, it is undeniable that public esteem for the institution and parliamentarians has fallen. To analyse the reasons for this is

not the purpose of this paper, but one can say with confidence that the Parliament of New South Wales has been strangely supine about taking positive steps to project a 'corporate image' to the electorate which might go some way to counteracting the decline noted. The Parliament's lack of sophistication in this regard is a cause for wonder.

How does this deficient public image fit in with the obvious desire of political parties of all colours to ensure that the performance and *raison d'être* of the public sector are under constant scrutiny by parliament? Value for money is a catchcry of parliamentary review and who would quarrel with that? But it is not widely recognised that the costs of parliamentary government itself have risen significantly in recent decades. Are taxpayers getting value for the increasing amount of their money invested in the parliamentary system? Why do we not have a clearer idea where the money goes and who benefits most from the expenditure? Is the institution really 'in the very best of hands'?

The Parliament of New South Wales was estimated to have cost the public purse over \$57m. in 1994-5. In 1993-4 its actual cost was over \$55m. Those are not modest amounts. Nor is it certain that these figures represent the full account of the continuing costs of parliamentary government in our State.

In a paper prepared in 1994, John Hatton, the prominent, well-informed Independent Member for the South Coast, wrote:

*Parliament does not have a good record at accounting for its own internal operations, its administrative policies and its staff arrangements and salaries.*  
(Hatton, 1994, p.5)

It is often said that parliaments are accountable to the public for their performance. This is a questionable proposition which would scarcely stand up to the same criteria of accountability as are required by parliaments of the public sector. Is there a contradiction between what parliaments apply to public servants and what parliamentarians apply to themselves? Does the Latin saw apply here: **Quod licet Iovi, non licet bovi**? [What is permitted to the God is not permitted to the beast: a reference to the myth of Europa and the bull.] How does all this relate to the annual reports of the Parliament?

At this point we must ask whether it is realistic to expect a 'corporate image' to come from such a complex body. Is parliament an organisation in any established sense? It is a political body subject to all the vicissitudes of party politics and public rejection; it is also a large bureaucracy with a continuing identity, its own well-established 'culture' and traditions. The way these two elements enmesh or are incompatible leads some observers to see parallels between parliaments and the military establishment. Each has internally competing centres of influence, complex lines of authority, strange voids of accountability, personal rivalries for powerbases with desirable access to patronage, and other variables[8]. There is still a rich field for scholarly research on the study of parliaments in organisational as well as political terms[9].

The Parliament of New South Wales consists of two independent Houses with separate staffs and separate administrative and political heads. The bureaucratic element is continuing whereas the political element may change as a result of elections. The bureaucratic and the political aspects are interwoven, but the political element is predominant in essential matters. Its control is unchallengeable.

On the political side, there are committees of each House of which the Public Accounts Committee of the Lower House is a good example. Some committees have a continuing legislative basis, others are created under Sessional and Standing Orders. Sessional committees perform mainly housekeeping roles whilst select committees are appointed to carry out some specified, finite task. Committees have parliamentarians as their members, but they have parliamentary staff to service them, either on a permanent or shared basis, or as occasion requires. There is no general requirement for committees to submit annual reports, but some do so.

Committees of all kinds may be joint and thus have members from both Houses. The Library Committee is such a joint committee appointed under Sessional Orders.

On the administrative side there are the two principal departments (Council and Assembly) which look after the professional, organisational and bureaucratic needs of each House. They have general supervisory control over the other departments, sometimes called joint departments, which serve the whole parliament. The provision of meals and refreshments is such a joint function; the maintenance of the valuable multi-storey parliamentary building is another. The State's Budget Papers show how the Parliamentary organisation is organised.

Also connected with the institution of Parliament are some non-official bodies which deserve mention in passing since the Parliament accords them recognition, facilities and expends funds for their benefit. They are the Parliamentary Press Gallery, the Association of Former Members, and the Commonwealth Parliamentary Association (N.S.W.Branch).

There is a patchwork pattern of reports from these bodies. Some seem never to have issued annual reports; some have apparently ceased to issue reports; others have begun to issue reports. We will deal with these bodies separately in what follows.

## **Annual Reports from Parliamentary Committees**

Annual reports are available from the Public Accounts Committee of the Lower House, and from the Standing Committees on State Development and on Social Issues, both of the Upper House. There are no publicly available annual reports from the Staysafe Committee (Joint Standing Committee upon Road Safety), the Joint Committee on the Independent Commission against Corruption, the Regulation Review Committee, the Joint Committee on the Ombudsman, the Joint Library Committee, and the Joint House Committee.

Most of those committees are major committees to which the Legislature has

entrusted important tasks of continuing social and political importance. Naturally in appropriate cases they furnish reports on specific items which they have reviewed, but they offer no report, as it were, on themselves.

The annual reports of the Department of the Legislative Council and that of the Department of the Legislative Assembly (reviewed below) provide considerable data on the committee system, but to gain insight into detail where, it is said, truth is generally to be found, is not easy. What, the reader may wonder, are the problems for non-party staff working with politicians on sensitive political matters?; what are the pressures to which staff may be subjected?; is there any protection for them from subtle harassment? Perhaps we can never be told by anyone other than a whistleblower.

Committee staffing classifications, performance criteria and conditions of employment are not discussed as such. Anyone interested in the administration of the committee system itself could not obtain a complete picture with any ease. The work of the committees as a class is acknowledged to have been one of Parliament's successes: here is something of which the Parliament could justifiably be proud and which it could bring to the public's notice. The present arrangement is patchy and not satisfactory as it stands.

One joint sessional committee, the Joint House Committee, periodically receives notice in the media for obvious reasons. In September 1991 the Sydney press reported that the Auditor-General had 'uncovered almost \$200,000 worth of bad debts owed to the State parliamentary bar and dining room'. (SMH 20.9.91) Another newspaper reported that the Auditor-General conducted a further audit two months later and found that the debts had increased by over \$50,000. (Telegraph Mirror, 20.9.91) This latter report added: 'The prices people pay for food and drink are insufficient to cover the costs and are met with a payment from the State's coffers'. Reports such as these contribute to a public perception of maladministration and feather-bedding. The Parliament is said to have since taken steps to set its dining room affairs in order, but in the absence of any published data one must withhold comment. The State Budget papers provide the bare bones which should be properly fleshed out in an annual report such as the Public Accounts Committee would require from executive departments and agencies.

The Victorian Parliament, by contrast, publishes extensive figures and other data on the performance of its refreshment rooms. This information is contained in the report of the Parliament's Department of the House Committee which is different in its scope from the New South Wales Parliament's House Committee. The Victorian report for 1992-3 devotes Appendix 2 (some seven pages) to the refreshment rooms' accounts, but even here there may still be room for greater transparency on performance and staffing.

In view of the key position held by the Parliamentary Press Gallery in the process of informing the public about parliamentary and political affairs, it would be useful to have some idea of the arrangements which give press and television representatives accommodation, parking, dining and drinking facilities, use of library services and other services in Parliament House. What is the notional cost to taxpayers for the rent, use of power, airconditioning and other amenities used by these media representatives? How many

such representatives are there in fact? This information is not publicly known. Whilst the press and television representatives are very important to the public scrutiny of political and parliamentary events, one may become uneasy if the relationship is seen as too cosy for real objectivity to be possible. It would be interesting to investigate whether there is any correlation between the decline of public esteem for the work of parliament and the role of the print and electronic media within Parliament House. J. Hatton has indeed suggested that 'The parliamentary institution as an institution may not benefit as largely as it should from the close association it has with these media representatives'. (Hatton, 1994, p.6)

It may be worth noting that this writer has not noticed mention of the parliamentary press galleries in any of the reports of Australian parliaments which he has scanned in background research for the present paper. There are many questions that a political scientist could ask about the correlations that have been raised above.

The Association of Former Members has not been long in existence and its role as a body able to assist the parliamentary and civics education process is still being developed. The Association does not receive any notice in the official reports examined in this paper and in all likelihood it does not receive much expenditure on the part of the Parliament. But there will be some value attached to its modest accommodation and use of services (phones and other amenities and facilities). There seems no reason not to mention the Association's existence in an appropriate annual report, especially in view of the potentially significant role the Association may play as an agency for political education at a time when its services could amply benefit the Legislature.

Another body of a parliamentary kind is the Commonwealth Parliamentary Association which has branches in a large number of parliaments with their roots in the Westminster system of government. In 1993-4 the sum of \$333,000 was spent under this head; \$213,000 are earmarked for expenditure in 1994-5. Those are sizeable amounts. The annual report of the Department of the Legislative Assembly gives some brief details of its activities, but there is no overall picture of how the funds are expended. The information supplied is inadequate to address points raised above. The annual report of the House of Representatives gives much fuller information about its Branch of the Association, but exactly how the funds there are spent is also unclear.

Parking is an amenity provided in Parliament House for a variety of authorised persons. In view of the central location in Sydney of the House, the full commercial value of such parking must be considerable. The annual report of the Legislative Assembly for 1993-4 reveals (p.61) details of receipts for parking space. Parliamentary authorities are aware of the fringe benefits implications of this amenity and charges are now levied, but no officially published reports on this matter are known. One can understand a hesitancy to go into such things publicly, but since parking is a 'resource' and marketable as such, it is a matter with have a certain claim on transparency. This would be a matter one might expect to see mentioned in a report by the Joint House Committee.

The matters outlined above are a few of the areas on which greater transparency and more explicit accountability by way of annual reporting would safeguard the Legislature's

reputation for management and avoid any suggestion that administration at Parliament House is lax or self-indulgent in any regard. Justice must be both done and be seen to be done.

The three parliamentary committees for which annual reports are available are:

- Standing Committee on Social Issues (Legislative Council)
- Standing Committee on State Development (Legislative Council)
- Public Accounts Committee (Legislative Assembly)

The reports for 1992-3 for the first two bodies are brief documents which are not annual reports in the sense this paper has been using. They are perhaps better called Annual Summary of Activities. They provide rudimentary details about staffing and accounts, but give a clearer picture of Committee investigations. There is obvious room for much fuller annual reports to be furnished. Remarks made earlier about the Committees in general have application here.

The annual report of the Public Accounts Committee for 1993-4 is a substantial document (123 pages), well organised and clearly presented. It contains an index as well as the usual contents list. The text of the Mission Statement, the Committee's Objectives and Strategies are all given (p.15) as well as a good accounts of how the Committee views its responsibilities and how it sets about carrying them out. The appendices contain the text of several speeches, one from a Committee staffer (its Director, Ms Azarias) as well as one from a Committee member, details of the code of conduct for Committee staff, and details of media coverage during the year of Committee activities. There is quite a deal of other information which need not be listed here.

This report is in many respects a model of its kind and will be of permanent historical value for researchers. It also has some cataloguing-in-publication data (but unfortunately with a mistake in the heading): this shows a real professional awareness on the part of the producers. All parliamentary in-house publications should contain such data. The only observation this writer would like to make in addition to a general commendation is that the report would be enhanced by more detail about its human resources, their management and development in the longer term. The staff are a valuable resource as they gain experience and expertise in complex public sector arrangements: those qualities should be cultivated and secured from wastage.

## **Reports from the Presiding Officers of Parliament**

The President of the Legislative Council and the Speaker of the Legislative Assembly are the joint heads of the parliamentary institution as a whole. They are the political as well as the administrative heads, working in conjunction when affairs concern the whole organisation, or working alone in matters concerning the one House. They are elected to their office by the members of each House. There are procedures setting out the arrangements pertaining to the way they will operate where joint departments are concerned. These two officers (the Presiding Officers of Parliament) have certain statutory responsibilities in addition to their parliamentary and administrative duties.

It is not usual in parliaments for Presiding Officers or, for that matter, ministers of the Crown, to present, either severally or jointly, annual reports on their administration. They are, in fact, not accountable in the accepted sense. It is sometimes claimed that the Presiding Officers are accountable in that they can be asked questions by any Member in the House. That is merely a pale and effete form of accountability since Presiding Officers are not compelled to answer any question put to them. The club atmosphere of parliament also makes this device rarely used. Discomforting questions are easily fended off.

There is consequently no overall report issued by anyone concerning the Legislature of New South Wales in its entirety. At best we have valuable, but limited reports from some parts of the organisation. It is impossible for the citizen to get information on matters which in the public service are fully documented and open to comment. Nor are the parliamentary staff, especially in the lower classifications, much better off: there are things on which they may be equally uninformed. Part One makes the point that annual reports have an in-house significance as well as one to the outside world.

Real concerns for morale may arise if staff feel that, for example, variant or arbitrary employment procedures occur in different parts of the organisation. A report on the whole Legislature as an organisation showing that it follows uniform rules and practices throughout (or at least making that claim) would be a desirable thing in itself.

In Victoria, however, the Presiding Officers of the Parliament have established a precedent by issuing to members a joint report from themselves 'on a number of issues affecting the Parliament'. Whilst not, strictly speaking, an annual report as such, their document, entitled Presiding Officers' Report, has features of a news bulletin as well as an account of the activities of the Presiding Officers. It aims both to inform their members and to display a sense of accountability. The Victorian publication is still in its early stages--the second issue is for October 1993-September 1994--and it is capable of becoming a much more sophisticated record. Each issue has a section on the parliamentary building. The second issue mentions that the five parliamentary departments still issue their own individual annual reports.

One matter on which the public in New South Wales should have some information is on the future of the parliamentary building itself. This is a major state resource. Built in the 1970s and occupied in stages from 1980 onwards, the building was intended to bring under one roof all parliamentary staff and committees (and save the considerable expenditure in rent). It was designed to provide an adequate working environment for members and staff. Originally parking was available gratis for all members and staff.

Political and administrative developments since the 1980s have shown up the limitations in the original planning and thinking about the parliamentary premises. There have been many internal alterations and upgrading to the premises and it seems that each new office holder will not be satisfied with what his predecessor accepted. The growth of parliamentary staff and activities has now led to severe strains on accommodation: do we expect this position to change in the foreseeable future? The latest annual report of the Department

of the Legislative Council contains unmistakable indications of troubles, but obviously there are many other sections affected about whose position we have no information. The annual report of the Legislative Assembly also contains data on the building, but only in a circumscribed sense .

The future of this resource in both the short term and the long term seems an ideal brief for a joint select committee, but in the absence of that body the task falls to the Presiding Officers and their advisers. On this important subject it would be reassuring to know whether long-range planning is under way (as distinct from the short-term expedients which seem to prevail). If major expenditure on the parliamentary premises and possible adjuncts to it (rented premises) becomes necessary, then the need for transparency is all the greater. Parliament needs to demonstrate that it is indeed capable of managing such a large and valuable public resource for the future benefit of the State[10]. The Parliament requires no less from the executive!

## **Reports from Parliamentary Departments**

The permanent career officers and administrative heads of the two principal departments are called respectively the Clerk of the Parliaments and the Clerk of the Legislative Assembly. They are directly responsible to the Presiding Officers. These four persons constitute the core of power in organisational terms within the Legislature.

The duties of these two officers blend parliamentary and political matters with purely administrative ones arising from the management of staff, premises and services. Each of these departments has in recent years issued an annual report to its respective Presiding Officer. These reports are publicly available. The latest issue of each is briefly reviewed:

Department of the Legislative Council:  
annual report for 1993-4 (79p.)  
Department of the Legislative Assembly:  
annual report for 1993-4. (82p.)

These two reports are well-produced lengthy documents with a number of individual strengths, but with some differences in each. The differences are not necessarily a bad thing and can indeed be a strength in line with the observation in Part One that there should be scope for novelty and creativity in annual reporting.

The Assembly report gives a very detailed and readable insight into the range of the Department's activities. The reader feels that the range must present problems of control for top management whose responsibilities in the running of the Legislative Assembly itself must absorb much time.

Management experts might be surprised at the number of small sections within the Assembly department. Senior management are shown in photos on p.45, but without any details of formal qualifications. The Council annual report gives this information which is nowadays usually required under reporting guidelines. What neither report gives is an

adequate picture of the salary levels and conditions of senior officers. Are there salary packages, for instance? Some officers have been said to have signed performance contracts, but this cannot be verified from the reports to hand. The details on staffing matters provided, for example, in the annual report of the Senate would be an excellent model to follow.

The Council annual report is as detailed and readable as the Assembly counterpart, but it contains a stronger degree of reflectiveness and comment on future developments (e.g. on corporate management, modern management concepts, and leadership). It also seems stronger in its appreciation and discussion of technology. The Clerk's overview (pp.10-14) allows him to speak in his own voice and introduce a slightly personal note which is a welcome feature.

The Council annual report contains remarks about stress-related illness of staff and staff dissatisfaction with working conditions (p.21) which make one wonder if the Assembly is as affected. There is an index (which is much in need of expansion); the Assembly report lacks an index, but has an excellent summary overview of contents which would satisfy many users seeking a quick orientation. The Council report might consider providing something similar. Each report would benefit from study of the indexes in the annual report of the House of Representatives.

Both reports contain the same material on the overall budget of the Parliament and its assets. An explanatory note (Assembly report, p.58) on the Parliamentary Library contains a misleading statement that the majority of the Library's holdings have been received under copyright deposit (i.e. since 1958). The Library was founded in 1840 and has very extensive holdings, purchased and donated, from that time until now. Both reports have tables and some pictorial representations of information, but neither has any graphs where one would expect them. They are both visually attractive and professionally presented.

Neither report is fully adequate in its account of staff, but the Council report is more satisfactory than the Assembly one in this respect. There is a different approach to the information supplied in each report. There is, of course, quite a lot of data overall on staff, but it is necessary to piece it together since there is no comprehensive picture available in either report. If we are curious about staff morale, career opportunities, trends with staff turnover, the nature of performance assessment policies, to mention a few subjects which are topical nowadays, we will be baffled more often than not. Admittedly these are not matters in which public sector annual reports unambiguously shine either.

There is need for a review by the producers of these reports of the staffing details they should supply. As pointed out earlier, nothing is more inimical to good staff morale than suggestions that there can be differing procedures on employment in the one organisation. The Parliament generally is mindful of public sector practice; the reviewed reports showing that many procedures are followed, but a degree of staff dissatisfaction about instances of non-compliance, specifically in appointments to higher paid jobs, has been rumoured. This raises doubts which one would like to see resolved.

Whilst the public sector's somewhat tarnished Senior Executive Service system is not formally adopted at Parliament House, some of its benefits are enjoyed by senior parliamentary officers. The practice followed in the annual reports of the House of Representatives and the Senate which directly address the comparable situation in Canberra might be usefully followed in New South Wales.

The Assembly report gives some information on members' electorate offices, but little detail on the staffing of those offices. It is not possible to gain any coherent picture of the system and its problems which are not likely to be insignificant. In view of some recent cases about the problems which can develop in personal relations between parliamentarians and their staffers, one would expect that greater attention should be given to making the system more transparent to outsiders. Of course the conditions of employment should be made absolutely clear to the staff.

Recent press reports in Sydney mentioned that members had been unsuccessful in their bid to get automobiles provided for their parliamentary duties. The two annual reports of the parliamentary departments are silent on the use of automobiles by officers and for departmental needs. What are the numbers used for personal use and departmental purposes in the Legislature of New South Wales? There is no suggestion of impropriety by this question, but merely a belief that sunlight is the best guard against infection. The example of the Legislative Assembly of the Australian Capital Territory might perhaps be worth following: the annual report of the Assembly Secretariat lists details of the 15 vehicles it uses, how many are for Members' use and how many for staff and departmental use.

Despite these strictures, it must be said that the reports are basically sound documents, displaying a positive attitude to the provision of information. Such reporting has only recently begun and we can expect improvements as the producers gain more experience. One might, perhaps, ask whether it would not be possible for the two producers to consult about publishing the two reports separately but within the one publication. This would have cost benefits, would save the same information, at present common to both, being produced twice, and would hopefully encourage members from the one House to gain some idea of the operations of the department of the other House.

No other parliamentary department issues annual reports, but it is puzzling that the Parliamentary Library which has issued reports from the 1920s right up to 1991 has apparently abandoned reporting to the Joint Library Committee and to its clientele.

The creation of a Parliamentary Management Board, an initiative flowing from the Moore-Wilkins Report during the term of the former Government, is still under discussion. This proposal will amalgamate joint departments and follows the pattern of steps taken in other parliaments here and abroad to improve parliamentary administration. If the proposal in New South Wales goes ahead, it would be desirable for the wording relating to the production of annual reports by the Management Board to be strengthened. The wording contained in the motion before the Legislative Assembly to establish the Parliamentary Management Board reads:

*(g) [The Board shall be responsible] for producing annual reports, to include information pertaining to each of the three Parliamentary Divisions [i.e. the existing joint departments] and containing as far as possible the information required in annual reports of Government Departments.*

To whom is the report to be made? Is it to be publicly available? Will it be tabled? Will it be produced by a specific time of the year? Will it be subject to peer review? The requirement that the annual report 'as far as possible' contain the information required in public sector annual reports leaves the sceptical reader uneasy: that qualifying phrase may become a neat device to allow scope for arbitrariness. Would it not be preferable to be categorical about the parameters and transparency of an annual report from this new body? If such reports are to be furnished, one would hope that annual reports from the components of the new Division might still come or even be encouraged since they should have a different audience and goals.

## **A Conundrum for the Public Accounts Committee**

The Issues Paper of the Committee points to the need for better annual reporting and for enhanced parliamentary scrutiny of the performance of the public sector. If parliament is to regain credibility in the public eye, it must demonstrate that it too is accountable in the fullest sense. Who should scrutinise its reports? Few would claim that they should not be scrutinised. The present scrutiny by the Auditor-General has its own limitations and can cast little light on the efficiency and effectiveness of the parliamentary organisation. Nor is self-review alone satisfactory for obvious reasons.

To some extent the Public Accounts Committee has pointed to a solution. In its report no.83 (June 1994), the Committee addressed the question of a peer review of the Office of Auditor-General. Its report makes absorbing reading, particularly in the transcript of evidence. A peer review of parliamentary annual reports relating to the organisational and service aspects of the Legislature would be an ideal solution.

Whilst there is no 'peer' to parliament, it is possible to envisage the establishment of an advisory panel (to assist the relevant parliamentary bodies), consisting of individuals able to bring the experience, expertise and insight necessary to create a credible approximation to peer review. Some cyclical system of peer review might be explored. It would not be difficult to gather suggestions on this score, but this writer will go no further at this stage, except to underline the desirability for such periodic peer reviews.

A quote from Roger Wettenhall, one of Australia's acknowledged experts on public administration, may be a fitting point to sum up this discussion:

*...henceforward much greater attention needs to be given in this country to the problems and needs of legislative administration.*  
*(Wettenhall, 1979, p.57)*

Annual reports from parliamentary departments and sections can play a positive, constructive role in this process.

# CONCLUSION

## One Step Forward...?

The picture which is drawn here of the Parliament's own approach to annual reporting, of its internal management and administrative activities, reveals some warts. Criticism is made not because what is produced is inadequate, but because the organisation itself is so unevenly covered. At the same time, the picture raises questions about the way Parliament is managed in the overall sense: these are matters only partially addressed by the Moore-Wilkins report mentioned earlier[11].

The Public Accounts Committee has not asked for this Pandora's box of very vicious wasps to be opened, so no further comment will be offered here. But the observer cannot fail to wonder at the extent to which parallel services and systems have flourished at Parliament House. There can be limited success in organisational leadership with so many vested interests becoming entrenched.

Why at the end of the twentieth century must we go to laborious efforts to gain even an incomplete picture of details of the operation, effectiveness and policies of the New South Wales parliamentary bureaucratic organisation? Is this a legitimate question for outsiders to ask? Why do Members themselves appear to have so little interest in these matters? Why has one parliamentary department ceased publishing annual reports after decades of reporting: have Members noticed?

The Public Accounts Committee's review of the whole question of annual reporting offers a unique opportunity to ventilate the question of Parliament's own accountability. To have at least that opportunity is welcome, but there is some indication that the new Carr Government may be prepared to respond to the challenges of Parliament's own transparency and accountability: matters may indeed proceed beyond pious platitudes. The Parliament cannot ultimately fail to benefit from a greater degree of openness and self-awareness, whether along the lines suggested here or on some quite different basis. Steps in this direction may help disperse public cynicism, prejudice and preconceptions about parliament's performance, its lack of transparency, and its apparent self-indulgence.

Whilst moves of this kind would be to the advantage of the State as a whole and contribute to an enhancement of the work and reputation of the Parliament, it would not of itself cure more deep-seated ills which are really systemic rather than administrative. That topic is one for another occasion.

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## ACKNOWLEDGMENTS

The author thanks the officers of the Parliament of New South Wales who were so helpful with information and advice. He also thanks the Librarian and staff of the Frank Lowy Library, Australian Graduate School of Management, University of New South Wales, and officers from other Australian parliaments, for material and assistance. The points made in the present paper are the sole responsibility of the author.

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- [2] The Colloquium Papers referred in [1] above contain much relevant material on this question.
- [3] Public Accounts Committee [of the Legislative Assembly of the N.S.W. Parliament]: Issues Paper: Annual Reports. (Report no.90 May 1995) 49 p. Sydney, The Public Accounts Committee, 1995. ISBN 0 7310 2171 1.
- [4] There is now a growing literature on this topic. A valuable review, dated January 1994, is Government Information: A Review of the Literature, by Jenny Rouse for Policy and Planning Unit, National Library of New Zealand. Wellington, National Library of New Zealand, 1994. 97 leaves, spiral bound. Also of value is the report of the Information Policy Committee of the Western Australian Government: Managing the Information Resource: A Management Perspective on Government's Information Resource Perth, Western Australian Information Policy Committee, 1992. 40 leaves ISBN 0 7309 5430 7.
- [5] For a robust discussion of this issue see For Parliament Or Party: Whose Democracy Is It, Anyway?, by Senator C. Kernot. (Australian Senate Occasional Lecture Series) September, 1994. 9 p.
- [6] See 'The Citizens Assembly Project...' by Bob Chiarelli, pp. 6-7 in Canadian Parliamentary Review, Spring 1994.
- [7] 'By Their Works...Parliamentary Committees and Their Reports', by P. Weller, pp.59-65 in Working Papers on Parliament (Canberra Series in Administrative Studies, no.5) Canberra College of Advanced Education, 1979. 194 p. ISBN 0 85889 129 8.
- [8] See for example 'Myths and Realities of Administering Australian Parliaments. Comments on the Foley-Russell Report' by R. L. Cope, pp. 43-52 in Legislative Studies, 7.1, Spring 1992.
- [9] See the contribution by Roger Wettenhall, pp.42-58 in Working Papers on Parliament in reference 6 above.
- [10] It will be interesting to see how a significant achievement from the engineering and maintenance side of the parliamentary organisation will be reflected in any annual reports.

This achievement is highlighted in an article in Engineers Australia, January 1995, p. 52 entitled 'Cogeneration at Parliament House'. Cogeneration is expected to save \$140,000 p.a. If performance pay is introduced in Parliament House, the officers concerned should look forward to a nice bonus!

[11] Managing the Parliament [The Moore-Wilkins Report] March 1992. Sydney, New South Wales Government. 31 p. ISBN 0 7305 9704 0. Also of interest are:(a) Comments on Discussion Paper "Managing the Parliament" by the Honourable K. R. Rozzoli, M.P., Speaker. [Sydney, The Speaker, Parliament House, 1992] 22 leaves.(b) Parliament Management Bill 1992: Comments of the President of the Legislative Council, The Hon. Max Willis, M.L.C. [Sydney, The President of the Legislative Council, Parliament House, 1992] 37 leaves.

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## APPENDIX TWO

### SEMINAR PARTICIPANTS

NAME	POSITION	ORGANISATION
Hon Michael Egan MLC	Treasurer, Minister for State Development and Minister for Energy	NSW Parliament
Michael Lambert	Secretary	NSW Treasury
Professor Bob Walker	Chairman	Council on Cost of Government
Chris Warrell	Senior Advisor Accounting	Australian Stock Exchange
Associate Professor James Guthrie	Associate Professor	Graduate School of Management Macquarie University
Carol Davies	Director	Office of the Director of Equal Opportunity in Public Employ- ment
Ken Baxter	Director-General	Premiers Department
Peter Gifford	Director of Corruption Prevention	ICAC
Tony Harris	NSW Auditor-General	Audit Office
Alison Crook	Director-General	Department of State Develop- ment
Dr Russell Cope	Former parliamentary librarian	NSW Parliament
Craig Prosser	Acting Chairman	Annual Reports Awards Austra- lia Inc
Bruce Buchanan	Executive Director	Office of State Revenue
Alex Walker	Chief Executive	Prospect Electricity
Dr Tim Smyth	Chief Executive Officer	Hunter Area Health Service
Mr John Raynor	General Manager	Sutherland Shire Council
Mark Dodds	Project Officer, Planning & Review	Department of Mineral Resources
Margaret Campbell	Director, Planning and Review	

NAME	POSITION	ORGANISATION
Angela Bollard	Director Corporate Management and Review	CALM
Murray Sheather	Manager, Financial Services	
Susan North	Senior Media and Publishing Officer	
Matthew Fitzgerald	Accountant	NSW Fisheries
Tim Powys	Manager, Financial Services	
Patrick McMahon	Director, Corporate Services	
Ian Thompson	Assistant Secretary	State Super
Rebecca Hazel	Information Officer	Office of the Legal Service Commissioner
Alastair Walton	Manager Media & Communications Unit	Building Services Corporation
Bassma Horton	Administration Manager	Office of Commissioners of In- quiry for Environment & Plan- ning
Kevin Cleland	Deputy Chairman	
Peter Wilmshurst	Lecturer School of Law	Macquarie University
Craig De Plater	General Manager	Teacher Housing Authority of NSW
Ken Parker	Operations Manager	
Jude Schuler	Media/Publicity Officer	Dept Local Government
Teck Tong	Accountant	Coal Compensation Board
Elizabeth Marwick	Manager, Administration Division	
Ken Barker	General Manager	NSW Health Dept
Tim Cheeseman	Acting Associate Director	
Charles Pace	Director	
Christine Sultana	Corporate Services	NSW Parliament
John Dulley		Premier's Dept
Louise Carson	Communications Officer	Department of Transport
Mary Christopher	Secretary	Police Board
Colleen Moyes	Assistant Secretary	

<b>NAME</b>	<b>POSITION</b>	<b>ORGANISATION</b>
John Chan-Sew	Senior Director, Policy Development	NSW Treasury
Colin Broad	Director Accounting and Reporting	
Henry Maleszka	Principal Policy Analyst	
Mark Pellowe	Principal Policy Analyst	
Robert Williams	Principal Policy Analyst	
Minh Nguyen	Acting Senior Assistant Policy Analyst	
Fiona Adamson	Assistant Policy Analyst	
Susan Goeres	Assistant Policy Analyst	
Dianna McHugh	Acting Assistant Policy Analyst	
Ian Rosenbaum	Financial Accountant	
Andrew Waddington	Financial Accountant	
Joan Cram	Assistant Financial Accountant	
Anna Done	Senior Finance Officer	Dept of Land and Water Conservation
Anne Bell	Editor, Corporate Publications	
Russell Stanton	Manager, Financial Planning	Sydney City Council
Chandralal Colombage	Acting Finance Manager	
Richard Watts	Assistant Finance Manager	School Education
Phil Daniels	Manager Strategic Planning	
Col Davis	Assistant General Manager	Building Services Corporation
Steve Newton	Policy Manager	
Paul Myers	Financial Reporting Manager	NSW TAFE Commission
Miranda Jakich	Assistant Publicity Officer	Legal Aid Commission of NSW
Laura Beacroft	Manager Policies and Education	
Kate Southam	Assistant Manager	NSW TAFE Commission
Alain St Flour	Associate Director	NSW Health Dept

<b>NAME</b>	<b>POSITION</b>	<b>ORGANISATION</b>
Kathleen Phelps	Publications Officer	Dept of Women
Lynette Dorn	A/Deputy Director	
Yvonne Miles	Manager Education	ICAC
Gary Hamer	Senior Policy Analyst	Ministry for Police
John Hall	General Manager	Judicial Commission of NSW
Mario Devjak	Administrative Officer	
Kate McCue	Executive Manager, Corporate Communications	Prospect Electricity
Phillip Hoare	Corporate Services	NSW Police Service
Mr Charu Khopkar	Manager Corporate & Technical Services	Motor Accidents Authority
Ms Joyce Parszos	Senior Public Affairs Officer	
Ms Pru Whitwell	Public Affairs Officer	
Janet Doust	Management Analyst	
Ian Gillespie	Director	Dept of Training and Education Co-ordination
Dawn Perryman	Manager Executive Support Unit	Dept of Public Works and Ser- vices
Peter Scarlett	Manager Corporate Finance Branch	
Elaine Schofield	Corporate Development Officer	Legislative Council NSW Parliament
Alex Christie	Corporate Services	Legislative Assembly NSW Parliament
Terry Hogan	Manager Policy and Research Management	Audit Office
Pamela Rutledge	Director, Management Services	Department of Housing
Russell Balding	Director Finance	Roads & Traffic Authority
Allan Cook	General Manager Financial Operations and Accounts	
Shane Randall	Project Officer	Premiers Dept

NAME	POSITION	ORGANISATION
Paul Thompson	Manager finance	NSW Rural Assistance Authority
John Newcombe	Liaison Officer	
John Rosier	Liaison Officer	Audit Office
Jennifer Owen	General Manager	Community Services Commission
Julie McCrossin	Project Consultant (Community Services Commission)	
Paul Debenum MP	Member for Vaucluse	NSW Parliament
Sam Napoli	Planning & Projects Officer	Corrective Services
Ross Hannah	Director Co-ordination, Policy and Review	
Phil Crossley	Director Finance	
Mike Hickman	Manager Corporate Support	State Forests of NSW
Paddy McGuinness	Journalist	Sydney Morning Herald
Paul Crew	Director	NSW Fisheries
Rolf Buche	Building Officer	Attorney General's Dept
John Olesky	Manager Corporate Communications	Victoria Auditor-General's Office
Alf Briscoe	Chief Accountant - Financial	Sydney Electricity
Rosemary Chung	Financial & Systems Accountant	Royal Alexandria Hospital for Children
Louise Mooney	Director of Finance	
Craig Nelson	Publications Coordinator	Roads and Traffic Authority
Anne Fien	Manager Corporate Administration	NSW Fire Brigades
Sarah Mulveney	Senior Public Relations Officer	NSW Dept of Community Services
Robert Eadie	Co-ordinator Promotions	
Kel Nash	Senior Projects Officer	Building Services Corporation
Toni Milne	Manager Research & Planning	

<b>NAME</b>	<b>POSITION</b>	<b>ORGANISATION</b>
Karin Hawkins	Manager - Prudential Supervision	FINCOM
William Parsons	Director - Projects & Management Services	Premier's Dept
Geoff Buggie	Senior Economist (Policy)	NSW Agriculture
Roger Stephan	Co-ordinator Strategic Management & Review	Dept of Urban Affairs and Planning
Peter Frankis	Deputy Manager Information Branch	Dept of Urban Affairs & Planning
Alan Bridges	Lecturer, Accounting	University of Technology Sydney
John Horder	Manager Corporate Service	WorkCover Authority
Robert Chalmers	Publications Officer	Business & Regional Development
John Ward	General Manager	Office of the Board of Studies
David Murphy	Director Finance & Administration	
David Patterson	Manager Policy, Planning and Research	
Gwenda Happ	Industrial Officer	Public Service Association
Selena Maclaren	Communication Manager	Olympic Co-ordination Authority
Joanne Young	Acting Director, Executive Unit	Northern Sydney Area Health Service
Steward Crawford	Executive Officer	Office of Minister for Education and Training
Denis Beck	Chief Administrative Officer	Darling Harbour Authority
Judith Miller	Publications Officer	Environment Protection Authority
Lucy Horodny	MLA	ACT Legislative Assembly
Thomas Muir	Public Relations	Department of Sport and Recreation
Matthew Taylor	Executive Director	Office of Marine Safety and Port Strategy
David Morton	Strategic Planning Manager	

<b>NAME</b>	<b>POSITION</b>	<b>ORGANISATION</b>
Peter Ryan	Manager Marketing	NSW Consumer Affairs
Paula Castille	Deputy Director	Office of the Director of Equal Opportunity in Public Employ- ment
Wendy Priestly	Senior consultant	Office on the Council on the Cost of Government
Peter Cullerton	Assistant Director Planning & Development	Department of Consumer Af- fairs
Michael Mobbs	Environmental law and policy consul- tant	
Don Hodges	Group Accountant	Sydney Water
Gordon Beven	Project Manager, Annual Reports	Sydney Water
Peter Olah	Manager Government Relations & Public Af- fairs	State Transit Authority
David Ooi	Chief Accountant	State Transit Authority
Elaena Gardner	Public Relations Officer	NSW Ombudsman
Ardele Blignault	Director, Corporate Relations	State Rail Authority
Elizabeth Masters	Public Relations Officer	Wentworth Area Health Service
Alan Mundy	Administrative Officer	Central Coast Area Health Ser- vice
Fiona Carrick	Public Relations Officer	Department of Energy
Andrew Humpherson MP	Member for Davidson	NSW Parliament
Jim Mitchell	Deputy Auditor-General	Audit Office
Tim Boreham	Journalist	Business Review Weekly
Samantha Keen	Journalist	New Accountant
Carmel Needs	Project Support Officer	Department of Industrial Rela- tions
Len Carver	Project Officer	
Joel Webster	Media/Publications Officer	Dept of School Education
Paddy McGuinness	Journalist	Sydney Morning Herald

<b>NAME</b>	<b>POSITION</b>	<b>ORGANISATION</b>
Peter McIlveen	Manager Government Relations	Pacific Power
Adrian McCabe	Administrative Officer	
Bernard Deady	Director Finance	Western Sydney Area Health Service
Anne Holden	Corporate Executive Officer	